Phillip Singapore Monthly – May25

Err…brace brace

PhillipCapital

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SINGAPORE | STRATEGY

5 May 2025

April 2025 performance

- Singapore equities fell 3.5% in April after a five-month winning streak. Banks and commodities were the weakest. Outperformers were telcos and defence. Investors are flocking to more defensive and capital-returning companies.
- Pulling of demand ahead of tariffs clouds the underlying momentum in the economy. US equities have ignored the trade war and trading back to 2 April levels. We worry the trade war and uncertainty have already started a reinforcing downward spiral of falling sales, followed by job losses.
- Anticipating Trump's next move is futile. Our base case (or guess) is that the worst tariff rates are behind us. The sell-off in equity and bond markets seems to temper Trump's aggressive posturing of trade policies. Sectors in Singapore that can outperform in a muted economic environment with attractive dividend yield include construction, defence, finance, property, REITs (foreign), power, and telcos. We expect banks to continue returning capital as reflected by their consistent share buy-backs.

Review: Singapore equities fell 3.5% in April after a five-month winning streak. Banks and commodities were the weakest (Figures 1 and 3). Significant outperformers were telcos and defence (Figure 2). Investors are flocking to more defensive sectors. Hongkong Land rallied on the US$810mn sale of One Exchange Square with plans to use proceeds to pare down debt and undergo a US$200mn share buyback plan. It is part of the US$4 to 6bn capital recycling plan by the end of 2027, and 20% of the proceeds will be allocated for buybacks. US markets have largely ignored the tariffs, trading slightly above 2 April levels, whilst Singapore is trading 3% below.

After the trade war: We expect economic conditions globally to soften as it bears the effects of the trade war. US PMIs for goods and services have started sliding since March (Figure 8), with container rates collapsing (Figure 9). LA port expects the impact of the tariff to hurt volumes from the middle of May, falling 35% YoY, impacting summer and back-to-school sales. US retailers have around six weeks of inventory before selective shortages occur. We worry that the negative spiralling of falling sales, causing job losses, which in turn pushes sales even lower, starts in May. Corporates will pause investments and hiring due to the uncertainty (Figure 10). US GDP is still contracting in 2Q25 (Figure 11). Global credit spreads have tightened, worsening financial conditions (Figure 12). An area of spending that is still robust is AI. Our proxy for AI spending is hyperscalers' capex, which is surging 42% in 2025 before it slows in 2026 (Figure 13). We still expect three Fed rate cuts on monetary policy, which is in line with market expectations (Figure 14).

As the market reprices US Treasuries as a safe haven, Singapore has captured some of these outflows. US Treasury yields are at a premium to Singapore's at levels not seen since the global financial crisis (Figure 15). Singapore's triple-A credit rating, rising foreign reserves, and disciplined fiscal management are a source of stability.

Recommendation: Singapore valuations remain attractive at 12x PE, below the average of 14x. And pays a dividend yield of 5.6%. Despite the ongoing trade war, we expect several domestic sectors to enjoy healthy earnings growth, namely real estate agencies, construction, capital markets (Figure 16), and power. Returning more capital has been a significant alpha generator that has supported the performance of multiple government-linked companies such as Singtel, Sembcorp, DBS, and Keppel. We believe this alpha is spreading to smaller caps such as Elite UK REIT and First REIT. Both have significant assets earmarked for sale that could be returned to investors and narrow their discounts to NAV. Both REITs pay dividend yields of 9%. We remain positive on banks. We expect credit costs to creep up but not significantly. The credit cycle over the past few years has been muted. Loans growth remain higher than last year and surge in trading activity driving fee income. We expect excess capital to be returned to shareholders as reflected by the consistent share buybacks post 2 April.

Figure 1: Ex-dividend sell off

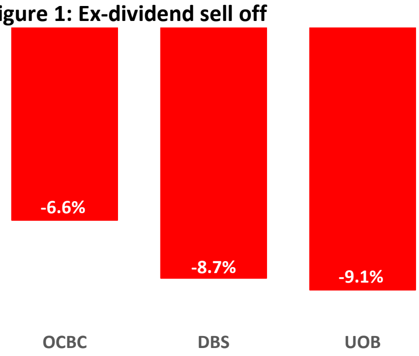


Figure 2: Returning capital generates alpha

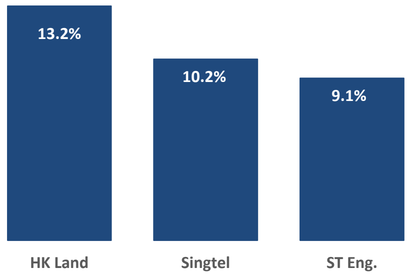


Figure 3: China, commodity and banks

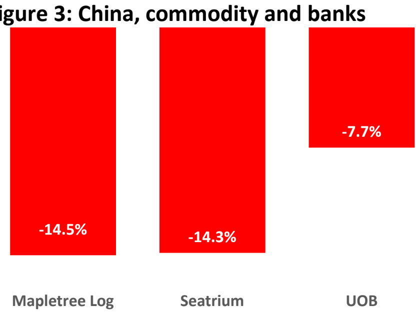
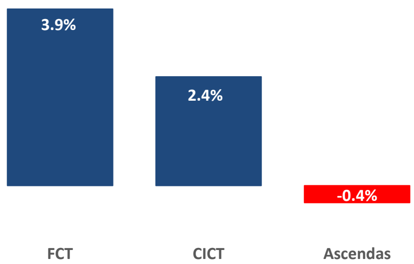


Figure 4: Delayed Fed cuts pressure REITs



Source (Fig 1-4): PSR, Bloomberg, 30Apr25

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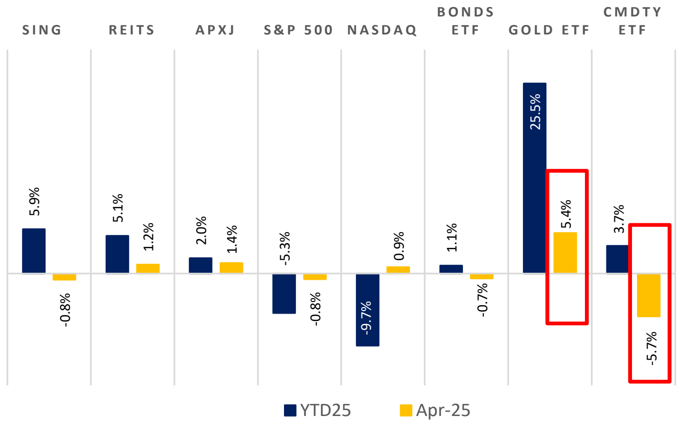
Corporate Insight Webinars (12 pm): CNMC Goldmine (15 May), Thakral (21 May), Sunpower Group (23 May), VinFast (4 June)
https://www.poems.com.sg/education/events-seminars/

Figure 5: Safe haven vs growth commodities



Source: PSR, Bloomberg # Performance in US dollar terms.

Figure 6: Rebound in SE Asia

	1 Mth Perf.	3 Mth Perf.	YTD Perf.	Market Cap (US$ bn)
Indonesia	3.9%	-4.8%	-4.4%	713
India	3.5%	3.5%	2.9%	2,295
Thailand	3.4%	-8.9%	-14.5%	447
S Korea	3.0%	1.6%	6.5%	1,433
Philippines	2.8%	8.4%	-2.7%	163
Malaysia	1.8%	-1.1%	-6.2%	251
ASEAN 6	1.2%	-3.3%	-5.5%	2,018
Japan	1.2%	-8.9%	-9.6%	21,862
SG REIT	-1.5%	0.2%	0.3%	70
Shanghai	-1.7%	0.9%	-2.2%	7,019
Taiwan	-2.2%	-14.0%	-12.2%	2,073
SG Mid Cap	-3.5%	-3.5%	-4.4%	90
Singapore	-3.5%	-0.6%	1.2%	445
SG Small Cap	-3.6%	-1.3%	-0.1%	26
Hong Kong	-4.3%	9.4%	10.3%	3,304
Vietnam	-6.2%	-3.1%	-3.2%	197
SG Financials	-7.0%	-4.5%	-1.9%	207

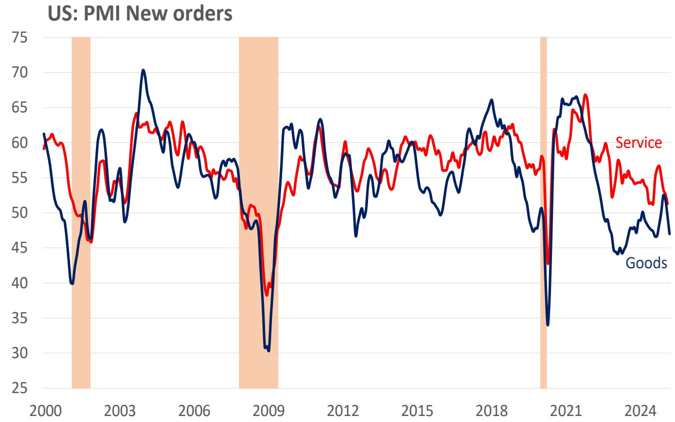
Source: PSR, Bloomberg

Figure 7: Telcos, Conglomerates and Property take the lead

PSR (147 companies)	1 Mth Perf.	3 Mth Perf.	YTD Perf.
Commodities	**-7.3%**	-2.9%	-3.3%
Conglomerate	**3.5%**	20.1%	21.4%
Consumer	**1.2%**	-3.6%	-3.4%
Finance	**-7.3%**	-4.3%	-1.8%
Healthcare	**-1.3%**	-3.7%	-4.4%
Electronics/Services	**-6.8%**	-5.7%	-5.8%
Property/Const.	**2.9%**	7.2%	4.9%
REIT - Hospitality	**-0.1%**	-2.7%	-1.5%
REIT - Industrial	**-3.9%**	-2.3%	-3.2%
REIT - Office	**-1.6%**	-2.3%	-1.7%
REIT - Retail	**1.2%**	6.1%	7.1%
REIT - Others	**-2.5%**	-2.1%	-1.4%
Shipping	**-7.4%**	-20.8%	-17.3%
Telecomm.	**9.5%**	12.6%	21.0%
Transportation	**-1.1%**	2.2%	0.1%
	-2.1%	1.4%	3.1%
Singapore	-3.52%	-0.6%	1.2%

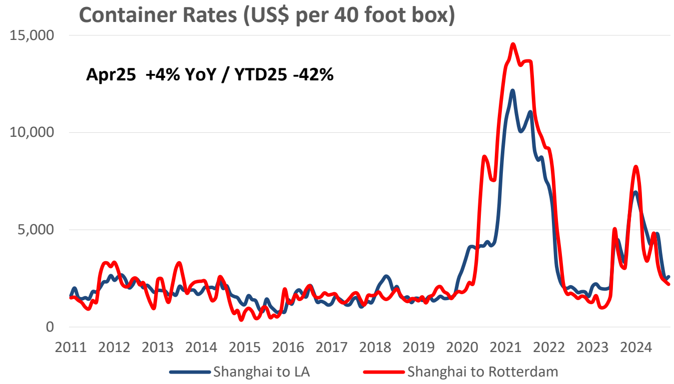
Source: PSR, Bloomberg

Figure 8: Manufacturing and services both slide down



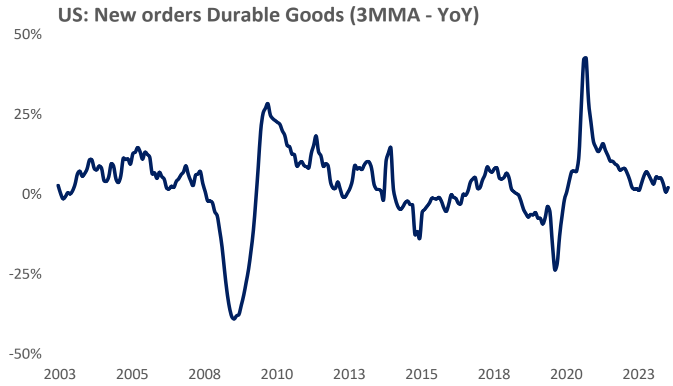
Source: PSR, CEIC

Figure 9: Major collapse in freight rates



Source: PSR, Bloomberg

Figure 10: No signs of capex cycle in the US

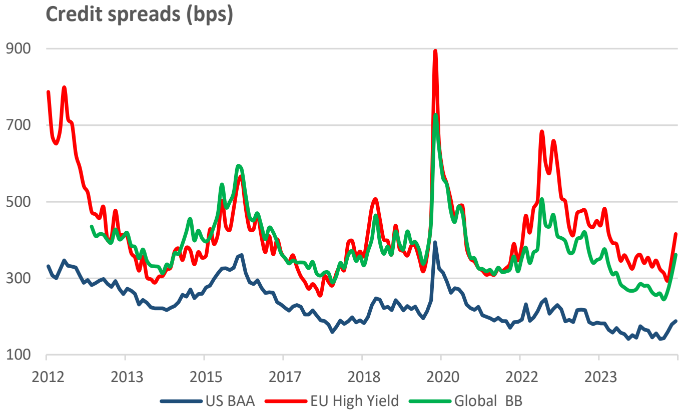


Source: PSR, CEIC

Figure 11: GDP still contracting into 2Q25

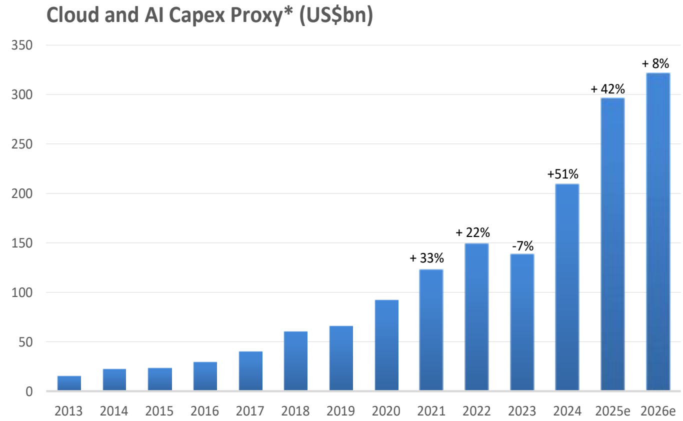
Source: PSR, CEIC

Figure 12: Financial conditions tightening globally



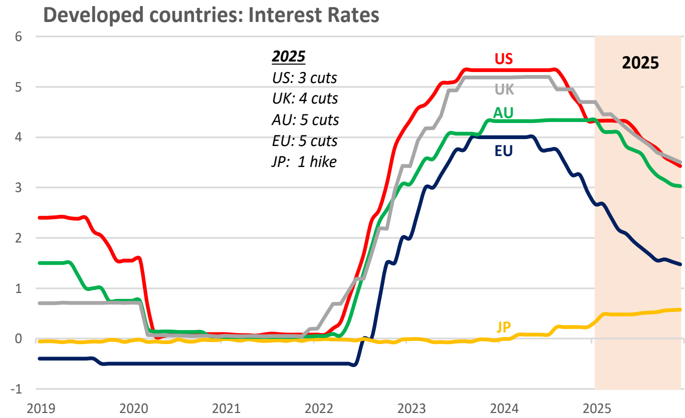
Source: PSR, Bloomberg

Figure 13: Stellar AI spending in 2025



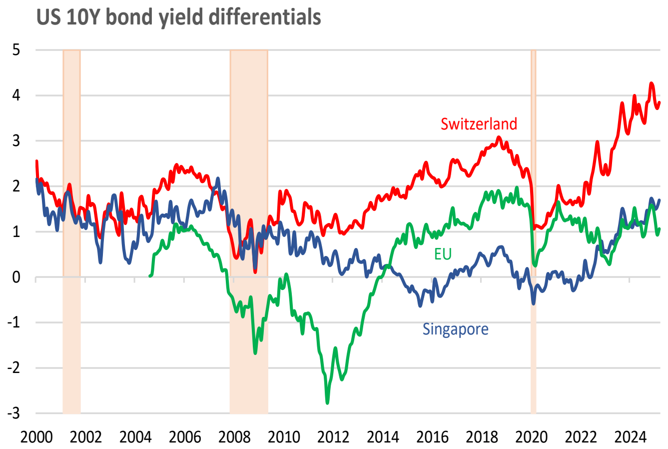
Source: PSR, CEIC *Hyperscalers Amazon, Google, Microsoft and Meta

Figure 14: More rate cuts are expected



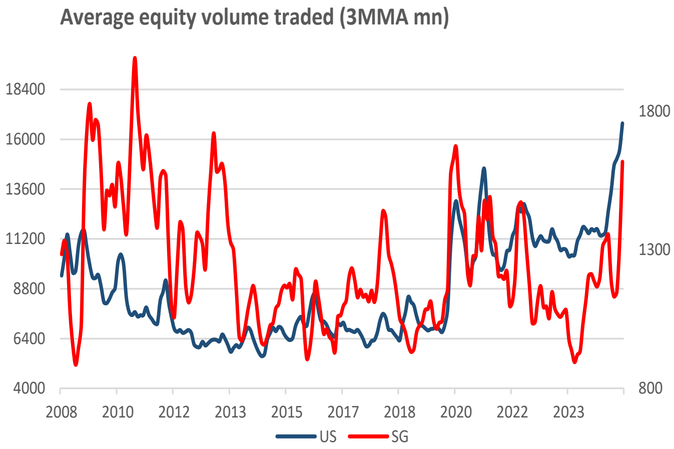
Source: PSR, Bloomberg

Figure 15: Safe haven flows into Switzerland and Singapore



Source: PSR, CEIC

Figure 16: April vol. jumped 60% YoY in Singapore



Source: PSR, Bloomberg

Phillip Absolute 10

Our model portfolio was down 3.1% in April, a small consolation for outperforming the market. Hurting the performance have been the banks (in part cum-dividend) and trade-related stocks such as SATs. Our overweight on small mid-caps largely evened out performance, with Geo offsetting PropNex weakness post-special dividend.

3Q24 - Add: **OUE REIT;** **Remove:** **Thai Beverage**
4Q24 - Add: **UOB, SATS;** **Remove:** **DBS, Singtel**
1Q25 - Add: **Ascott, OCBC, Wee Hur;** **Remove:** **ComfortDelGro, Valuetronics, OUE REIT**
2Q25 - Add: **Geo Energy, PropNex;** **Remove:** **China Aviation Oil (CAO), ST Engineering (STE)**

Strategy commentary: Despite the hostile trade environment, we kept SATS in the portfolio to hedge any likely improvement in negotiations between China and the US. With the de minimis exemption of tariffs effective 2 May, we expect softness in air cargo to materialise soon. Customers are either cancelling or stocking up. Another indirect victim of the trade war is CapitaLand Investment. Real estate transactions are drying up as buyers turn more conservative in their assumptions. We turned more positive on Keppel. There is better growth visibility from 2H25 onwards with the completion of new projects such as Keppel South Bay, Bifrost cables and Keppel Sakra plant.

Figure 17: Monthly movements

	Absolute 10	SING
Jan25	1.4%	1.8%
Feb24	-0.7%	1.0%
Mar24	4.4%	2.0%
Apr24	-3.1%	-3.5%
May24		
Jun24		
Jul24		
Aug24		
Sep24		
Oct24		
Nov24		
Dec24		
YTD	1.8%	1.2%
Out/(Under)perf.		0.6%

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

Figure 18: Phillip Absolute 10 performance April 2025

Company	1M	3M	YTD	Rating	Target Px (S$)	Share Px (S$)	Upside	Mkt Cap (US$m)	Dvd. Yield
Yield									
CapitaLand Ascott	-1.7%	-4.5%	-1.7%	**Buy**	**1.05**	0.855	23%	2,494	7.1%
Stoneweg REIT - EUR	0.0%	-3.8%	-5.1%	**Buy**	**1.86**	1.50	24%	951	4.7%
Dividend / Earnings Growth									
Geo Energy	7.6%	24.6%	20.3%	**Buy**	**0.47**	0.36	32%	385	3.7%
OCBC	-6.6%	-7.2%	-3.2%	**Accumulate**	**17.10**	16.15	6%	55,610	5.3%
PropNex	-8.7%	-4.5%	11.1%	**Buy**	**1.33**	1.05	27%	595	4.5%
SATS	-8.8%	-17.1%	-22.8%	**Buy**	**4.34**	2.81	54%	3,196	0.5%
UOB	-9.1%	-7.7%	-4.7%	**Buy**	**39.80**	34.64	15%	44,302	5.2%
Re-rating Plays									
CapitaLand Investment	0.4%	11.8%	5.0%	**Buy**	**3.65**	2.68	36%	10,231	4.5%
Keppel Ltd	-4.9%	-3.2%	-4.1%	**Buy**	**8.00**	6.56	22%	9,112	5.2%
Wee Hur Holdings	1.0%	7.1%	25.0%	**Buy**	**0.62**	0.53	18%	369	1.1%
Average	-3.09%	-0.5%	2.0%				25.7%		4.2%

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

Figure 19: Snapshot of Top 10 gainers and losers in April 2025

Top 10 Gainers		Top 10 Losers	
Southern Alliance	31.0%	Aztech Global	-32.1%
CNMC	21.7%	Nanofilm Tech	-19.2%
Oiltek International	19.7%	iFast	-16.2%
Hong Kong Land	13.2%	Mapletree Logistics	-14.5%
Singtel	10.2%	Rex International	-13.8%
Frasers Hospitality	10.1%	First Resources	-13.7%
Food Empire	9.4%	Unusual	-13.6%
ST Engineering	9.1%	Fortress Minerals	-13.5%
Geo Energy	7.6%	Medtecs International	-13.1%
SGX	7.4%	Marco Polo Marine	-12.5%

Top 10 SPDR Gainers		Top 10 SPDR Losers	
HK Land	13.2%	Mapletree Log	-14.5%
Singtel	10.2%	Seatrium	-9.5%
ST Eng.	9.1%	UOB	-9.1%
SGX	7.4%	SATS	-8.8%
DFI	5.9%	Wilmar	-8.7%
Jardine Matheson	5.0%	DBS	-8.7%
Sembcorp Ind.	4.1%	OCBC	-6.6%
FCT	3.9%	Venture Corp.	-6.1%
CICT	2.4%	YZJ	-5.9%
CLI	0.4%	Keppel	-4.9%

Source: Bloomberg, PSR

Weekly Equity Strategy Commentary

Week 14	As the world awaits "liberation day" tariffs by the US, Asia may have some breathing space compared to the huge animosity the current US administration has against Europe. The text message released by the Atlantic magazine editor shows VP Vance's deep loathing of Europe, calling them pathetic and freeloaders. US equities continue to feel the weight of the uncertainty in tariffs. Worries of US consumers pulling back spending are reflected in Nike's share price now at pre-pandemic lows. This is after guiding mid-teens decline in its sales forecast. FedEx similarly cut its outlook due to uncertainty in the economy. Another sign of weakening investor sentiment on AI has been the sluggish IPO performance of CoreWeave. It is considered a pure play on AI but closed unchanged at US$40 and represents the largest tech IPO in the US since 2021. The IPO price was cut back from its target of US$47-55 per share. We think another issue CoreWeave has is its label as a WeWork of AI. CoreWeave is essentially renting data centres long-term and buying perishable GPUs, to re-lease them on a short-term basis to Microsoft, which accounts for 62% of revenue. There is also uncertainty of the type of technology or moat in the business. It operates at a net loss of US$937mn with net debt of US$6.6bn. In Singapore, we are positive on small-mid caps. We think "It's alive and it's moving". There is injection of liquidity from MAS equity market development programme (EQDP), attractive valuations and earnings momentum from several key sectors. If we assume a minimum of 30% of the S$5bn in EQDP is allocated to Singapore equities, of which half goes to small-mid cap below S$1bn, the S$750mn is equivalent to around 3% of the available free float. We believe the impact will be even larger considering the current lacklustre liquidity. Over the past seven years, the average takeover or privatisation premium paid over the prior 1- and 3-months trading price is around 50%, a reflection of the underlying value of many small mid-caps. Finally, key small mid-cap sectors such as building materials, construction, property, oil and gas services and commodities, are enjoying a strong earnings momentum. We are initiating coverage on Geo Energy for its 43% jump in coal production and new revenue source; and CNMC Mining with the estimated 47% rise in net profit from 20% growth in production 18% increase in the gold price.
Week 15	We think 2 April will be the day of infamy when the US ignited a global trade war. Instead of bombs dropping on Pearl Harbour, US fired tariff missiles at the whole world. The risk of recession is high. Economies can slow momentarily due to the occasional destocking of goods. But a recession needs a shock to the economy. We worry Trump has kicked start a negative feedback loop of cautious consumers and businesses that will spend less. The lower sales in turn cause less hiring, which then spill back into lower sales, creating that negative downward spiral. This demand shock is being worsened by the collapse in US household wealth in equities. What holds us back, hopefully not naively, from fearing a worldwide recession is a few reasons. We have seen Europe especially Germany undertaking unprecedented fiscal spending. We expect China to follow up with an aggressive fiscal response. Secondly, central banks have already cut rates, and we expect more to occur. Finally, this is a man-made disaster which can be overturned overnight. The issue will be Trump's tolerance level. This will be unlikely to waver until the mid-term election next year. The sacking of Commerce Secretary Howard Lutnick will be a catalyst. The objective of Trump's tariffs is to bring manufacturing back to the US. But as President Reagan aptly said, tariffs only make homegrown industries rely on government protection and stop competing. High tariffs inevitably lead to retaliation by foreign countries. The result is more and more tariffs and less and less competition. The worst hit sector will be manufacturing. It used to be "China plus 1", not sure what it will be now. Maybe it will become Singapore Plus since we now have the lowest tariffs in the world at 10%. We expect the tariff burden to be shared by US consumers and manufacturers. The semiconductor sector has avoided the tariffs, but it is uncertain for how long. Furthermore, our base case is customer order cancellations or caution over their inventory levels. In this environment, REITs will be the relative bet. We think the Federal Reserve will cut three times this year. It will favour protecting jobs in the US rather than focusing on inflation, which is deemed transitional due to the tariffs.
Week 16	This is a summary of today's Singapore strategy report update. Singapore equities tumbled 11.6% in April, ironically worse than Vietnam's 6.5% decline. Singapore banks have been the epicentre of the sell-off, falling 15%. We view the sell-down in banks as a search for liquidity rather than a sharp drop in bank fundamentals. How do you play a game that is rigged? A game where an individual can change the rules and outcomes daily with a tweet? You either don't play or raise your odds. We think the odds favour the investors in selected sectors, especially banks with a record forward dividend yield of 7%. Singapore is a safe haven. US Treasury yields have been widening instead of the usual collapse in yield during risk-off sell-off. We think foreign investors are diversifying their portfolios due to the perceived geopolitical risk from the US, worries of inflation and repatriating back home for domestic use. Singapore's safe-haven status in terms of economic resilience, fiscal capacity, and currency strength. Valuations are also attractive at a lower quartile 11x PE ratio (average 14x) with a dividend yield of 6.2%. Banks bear the brunt of the sell-down due to their trifecta risk from a slowing economy – 1) Rising bad debt provisions, but there has been no credit boom. Loans only grew 2.5% CAGR over the past three years. 2) Falling interest rates, but the steepening yield curve plus rising CASA will ease the margin pressure. 3) Slower loan growth is expected but

	the sharp rebound in property sales and the need for additional liquidity could keep loan demand elevated. Furthermore, the volatile market conditions boost banks' capital market, wealth management, and trading operations. Manufacturing is an underweight as we worry uncertainty over tariffs will cause lean inventories throughout the supply chain. On REITs, a sharper bounce from lower rates is likely in the latter part of this year. The slowdown in the US economy will be more evident, and the market may begin to price a new and more dovish Fed chairman.
Week 17	Trump's gaze has now shifted to Fed Chairman Powell, raising another tail risk for the market. Trump said if he wants Powell out, he will be out fast. Interest rates are set by the 12 members of the FOMC of which 7 are members of the board of governors nominated by the President and confirmed by the Senate. Another 5 are regional presidents appointed by regional reserve banks. There is an even larger battle than just the Fed chairman. In general, executive branch officials can only be removed for neglect of duty or malfeasance in office before their term ends, under case law Humphrey's Executor. However, some Supreme Court members suggest it is unconstitutional to limit the president's power to remove executive-branch officials at will. Crucially, the loss of Fed independence hurts the economy. Using a PIIE study, if a politician runs the central bank, the economy will run ahead of its potential, and there will be a growth spurt followed by inflation. Then, investors will lose confidence in the currency and bonds over fears of persistent inflation and there will be capital outflows as the currency depreciates. A fall in the capital stock reduces potential GDP over time. However, the rest of the world may benefit if capital shifts out of the US to other regions. I attended the Genting Singapore AGM. It was a peculiar meeting. Management continued to list the advantages Marina Bay Sands (MBS) had over its casino. They said MBS enjoyed a great location near the city, two MRT lines connecting to a station just beneath the resort and was surrounded by 30k rooms (Sentosa 5k) that feed especially higher spending business travellers into its casino. The second interesting comment was shareholders complained that the stock was cheap as analysts here were too young to understand the company and management should speak more to foreign analysts. Since I am old, I believe Genting Singapore is de-rated due to the weak results -- 2H24 was down around 32% YoY. There is a planned S$6.8bn investment for RWS 2.0 to revamp the resort with new hotels, rides and experiences. This is higher than the current S$5bn of fixed assets implying depreciation could double. These investments to attract the affluent may not reverse the loss in gaming market share to MBS of around 1% point per year over the past five years. We think the bigger opportunity for Genting will be the Greater Southern Waterfront. There will be new homes, parks, offices and tourist destinations that can feed more visitors as RWS 2.0 is completed by 2029. An interesting corporate development is CapitaLand's entry into China's REIT market. We have always viewed the captive liquidity within China as the golden goose of domestic savings. CREITs are trading at 4-5% dividend compared to CapitaLand China's current yield of around 9%. On tariffs, ASML said it will not lower its full-year guidance but there is so much uncertainty with semiconductor tariffs still under review. Customers have not taken a view on tariffs. TSMC similarly maintained its full-year forecast (24-26% sales growth in 2025) because it has not seen any change in customers' behaviour so far. We remain cautious on semiconductors. US officials have said it needs electronics and semiconductor production to be re-shored and separate tariffs coming soon. A sector reaping a windfall from Trump's policies have been the capital markets. We have seen an explosion in volumes for US and Singapore of around 110% and 87% YoY respectively in April so far. Rising volumes and volatility will benefit brokers, exchanges and to a certain extent banks. It could be a banner four years.
Week 18	We expect the rebound in US equities to be sustained in the coming weeks. Corporate results have generally been positive with no dire profit warnings. We believe orders have largely been pulled into the first quarter and the impact of the trade war has not been felt yet. Trump has also reeled in some of his more aggressive posturing. It gets more tenuous for markets as we approach the 8 July reciprocal tariffs. Several countries mentioned the lack of requests from the US to even start negotiations. Most countries are also not willing to change their value-added tax or agriculture subsidies. If China adopts a war of attrition strategy, there needs to be economic and inflation pain in the US before negotiations begin. The current direction of trade talks is not positive for markets. We attended CDL's AGM. Management was cognisant of the need to lower its gearing and interest expense. The company is looking for at large divestments. We worry CDL turns into that Venus fly trap that baits investors with an irresistible RNAV of $17.57 (vs share price S$4.99). There were no long-term plans to monetise assets, no share buybacks done and no insider buying. Independent directors hold a combined stake of 140k shares, not much skin in the game. After listening to Mapletree Logistics results, we think their entire China portfolio (17% of total revenue) is problematic. Almost all the leases are on a rolling one-year tenure where rents are falling 9% per annum. The vacancy rate in Beijing is 25-28%. Singapore is operationally healthy, but the edges are dropping a little. Portfolios with leases of less than 20 years are facing sharper valuation declines. In summary, Singapore assets remain the bedrock for all REITs. Most spectacular was the 15% or S$500mn rise in VivoCity valuations to S$3.8bn. Office and industrial assets in China face 9-10% rental pressure even before the recent trade tension. A sector that will enjoy earnings growth is real estate agencies. Private residential transactions grew around 72% YoY for the 2nd consecutive quarter in 1Q25. We have a BUY recommendation on PropNex with a target price of S$1.33. The highlight of Keppel Ltd.'s results was the visibility of several earnings drivers. Keppel South Central is almost 50% leased out, Bifrost subsea cables will be completed in 2H25 and Keppel Sakra Cogen operational in 1H26. Meantime, the company will undertake divestments of its real estate, M1 and rig assets.

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