iFAST financial

SECTOR REVIEW

SOUTH EAST ASIA

SINGAPORE – 4.0 STARS (VERY ATTRACTIVE)

- Purchasing Managers Index came in at 51.8 in Aug 17, up from 51.0 in Jul 17
- Electronics sector PMI rose slightly to 53.2 in Aug 17 from 52.2 in Jul 17
- Retail sales rose 1.8% y-o-y in Jul 17, down from an upward-revised 2.0% y-o-y increase in Jun 17
- Retail sales ex-autos rose 2.2% y-o-y in Jul 17, down from a 4.2% y-o-y increase in Jun 17
- Non-oil domestic exports surged 17.0% y-o-y in Aug 17, after rising 7.6% y-o-y in Jul 17
- Electronic exports rose 21.7% y-o-y in Aug 17, up from a 15.3% y-o-y increase in Jul 17
- CPI rose 0.4% y-o-y in Aug 17, down from a 0.6% y-o-y increase in Jul 17
- Core CPI rose 1.4% y-o-y in Aug 17, slightly lower than the 1.6% y-o-y increase in Jul 17
- Industrial production rose 19.10% y-o-y in Aug 17, up from a 21.2% y-o-y increase in Jul 17

MARKET OUTLOOK

Over the course of September as of 26 September 2017, the 2017 and 2018 earnings estimates of Singapore companies were revised downwards by a slight -0.6% and -0.5% respectively. For the whole of 2017 and 2018, as of 26 September 2017, the earnings of Singapore companies are expected to grow 4.6% and 8.3% respectively. Over in the heavy-weight banking sector, little changed with regards to earnings estimates, as both OCBC and UOB saw no earnings revisions (0.0% change) over the month, and DBS saw a -0.1% dip in earnings estimates. While hurricanes over in the US have spurred speculations that the Fed would hike rates later than expected, thus potentially resulting in slower-than-expected improvement earnings over in the banking sector; the hurricanes have also partially affected US energy industry activity, lifting investment sentiments relating to energy prices and the banks' exposures to the oil & gas sector in Singapore. Meanwhile, the STI's next heaviest-weighted sector, the real estate sector, saw mixed earnings revisions. Companies which saw the greatest earnings upgrades in the month include REIT CapitaLand Commercial Trust and shipbuilder Yangzijiang Shipbuilding Holdings Ltd, while companies which saw the greatest earnings downgrades were Genting Singapore PLC and Golden Agri-Resources Ltd from the consumer discretionary and consumer staples sectors respectively.

Singapore's non-oil domestic exports (NODX) growth maintained its momentum in August, with total exports rising 17.0% year-on-year, faster than the downward-revised 7.6% growth rate in July and surpassed market expectations for a 11.8% increase. August's print was supported by strong growth in exports of both electronic and non-electronic products, which rose 21.7% year-on-year (up from July's 15.3%) and 15.0% year-on-year (up from July's 4.4%) respectively. With the exception of Taiwan, exports to all of Singapore's top ten export destinations also increased. Looking ahead, Singapore's NODX growth momentum is likely to continue, supported by a sustained pickup in global trade and a robust semiconductor industry. At this juncture, expectations are for the trade-reliant city's GDP to grow 2.5% for the whole of 2017, up from 2.0% in 2016.

In the month of August, Singapore's industrial production grew 19.1% year-on-year, down from the prior month's 21.0% expansion but continued to exceed expectations (expected 16.0% year-on-year in August). All manufacturing clusters, with the exception of the general manufacturing cluster which contracted a slight -0.6%, had expanded. The electronics and biomedical manufacturing clusters had led expansion over the month with strong growth rates of 38.7% and 25.1% year-on-year respectively. Retail sales rose 1.8% year-on-year for the month of July, after having risen by 2.0% year-on-year in June and headline inflation rose 0.4% year-on-year in August, down slightly from a prior 0.6% year-on-year increase in July. Core inflation came in at 1.4% year-on-year in August, down from prior month's 1.6% year-on-year growth. While global oil prices may average higher this year as compared to last year as they have risen considerably from their 2016-trough, unfavourable supply-side factors remain a risk to upward pressures. In addition, domestic sources of inflation have remained muted given the still-soft labour market. As at 25 September 2017, the MTI and MAS maintained their headline CPI forecast for 2017 at 0.5-1.5% and their core CPI forecast for 2017 at 1.0-2.0%.

Over the course of September, as of 26 September 2017, the Straits Times Index has dipped -2.0% and currently trades at estimated PE ratios of 14.7X and 13.6X for 2017 and 2018 respectively, comparing favourably to its fair PE ratio of 16.0X. The earnings growth of Singaporean corporations are likely to improve from last year in view of ameliorating global and domestic economic conditions as well as a possible bottoming out of the private residential real estate sector. **We think a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted at this juncture**.

**RECOMMENDED FUND:
NIKKO AM SINGAPORE DIVIDEND EQUITY**

ASIA COUNTRY STAR RATINGS
SINGAPORE (4.0 STARS – VERY ATTRACTIVE)

Why we like it:

1. Attractive Valuations and Fairly Appealing Dividend Yields
   - The Straits Times Index (STI) trades at estimated PE ratios of 14.7X and 13.6X for 2017 and 2018 respectively, below our estimated fair PE ratio of 16.0X (as of 26 September 2017).
   - In addition, estimated PB ratios of the STI for 2017 and 2018 are 1.2X and 1.1X respectively, lower than its long-term historical average of 1.4X.
   - Estimated dividend yields of 3.4% and 3.5% in 2017 and 2018 respectively are fairly appealing.

2. Relatively Lower Risk In Times Of Volatility And Uncertainty
   - In recent years, the STI has been less volatile as compared to several ASEAN peer equity indices such as Indonesia's JCI Index, Malaysia's KLCI Index, as well as other Asian equity indices; notably Hong Kong's Hang Seng Index and Japan's Nikkei 225 Index. The single one-day drop from the Brexit result on 24 June 2016 saw the STI fall -2.1%, less than the -2.9% decline seen in the Hang Seng Index.
   - In times of heightened global risks and uncertainties, Singapore continues to offer investors a stable investment opportunity as compared to its other Asian peers.

3. Pro-Business And Investment Climate
   - Given Singapore's pro-business government, the country boasts an attractive tax system and pro-business government policies. Furthermore, Singapore offers strong political stability, government transparency, strict anti-corruption laws and a strong currency. Combining this with the STI's derivation of two-thirds of its revenues from the region, the index enables investors to gain regional exposure coupled with strong stability.
   - Singapore ranked second in the World Economic Forum's 2016-2017 Global Competitiveness Report, supporting the city state's status as the gateway to the East for MNCs.

Why we don't like it:

1. Reliant On Trade
   - Given Singapore's small domestic market, the economy continues to be highly dependent on external trade. This sees the country's economic growth dependent on the growth in other economies, to a notable degree, especially its major trading partners (China, Malaysia, Hong Kong, Indonesia).
   - While global growth is likely to continue picking up, particularly with the continued stabilisation in the Chinese economy and strength in the US economy, Singapore's reliance on trade no doubt remains a risk.

2. Ailing Oil & Gas Sector Remains A Drag On Banks' Profitability
   - Singapore's ailing Oil & Gas sector has been the main contributor to the rise in non-performing loans (NPL) in Singapore's banking sector in recent times, despite the banks having a relatively small exposure to the sector.
   - Although oil prices are expected to average higher in 2017 as compared to 2016, unfavourable supply-side factors continue to present a risk to oil prices and thus, to the earnings of Singapore Oil & Gas companies. Given that the banks have increasingly looked to contain their exposure to the Oil & Gas sector, there exists a good likelihood that new NPL-formation attributed by the Oil & Gas sector, if any, would slow in the near term. Nonetheless, the Oil & Gas sector remains a risk to the profitability of banks. Singapore banks represent over 30% of the STI and form the largest sector.

3. Still Weak Property Sector
   - As we have estimated, around 60% of the STI has some exposure to the property sector, which on its own comprises about 19% of the STI. The recent easing of cooling measures by the Singapore government as well as anticipation of a bottoming out of the real estate market had contributed to in the increase in the valuations of property sector stocks which, in turn, had significantly contributed to the rally in the STI year-to-date.
   - The latest data revealed that property prices and rentals at large had continued to decline, although there are signs of a bottoming-out of the private residential property market in particular. The risk that the overall still weak property market continues to be a drag on the Singapore economy over the coming quarters lingers. The property sector continues to remain vulnerable not only to cooling measures but also to future interest rate increases and the performance of local retail sales.