SOUTH EAST ASIA

SINGAPORE – 4.0 STARS (VERY ATTRACTIVE)

- Purchasing Managers Index came in at 52.7 in Feb 18, down from 53.1 in Jan 18
- Electronics sector PMI fell to 52.1 in Feb 18 from 52.9 in Jan 18
- Retail sales fell -8.4% y-o-y in Jan 18, down from an upward-revised 6.3% y-o-y increase in Dec 17
- Retail sales ex-autos fell -8.1% y-o-y in Jan 18, after an upward-revised 2.6% y-o-y in Dec 17
- Non-oil domestic exports fell -5.9% y-o-y in Feb 18, declining from an upward-revised 12.9% y-o-y increase in Jan 18
- Electronic exports fell -12.3% y-o-y in Feb 18, after a -3.9% y-o-y decline in Jan 18
- CPI came in at 0.5% y-o-y in Feb 18, after a 0.0% y-o-y change in Jan 18
- Core CPI came in at 1.7% y-o-y in Feb 18, up from 143% y-o-y in Jan 18
- Industrial production rose 8.9% y-o-y in Feb 18, after a downward-revised 16.9% rise in Jan 18

MARKET OUTLOOK

Earnings estimates of Singaporean corporates (represented by the constituents of the Straits Times Index) saw their earnings estimates upgraded over the month, as 2018's and 2019's estimates were bumped up 0.4% and 0.6% higher respectively (as of 26 March 2018). Year-to-date, 2018's and 2019's earnings estimates have been raised 4.2% and 5.4% respectively. As compared to moderate earnings upgrades in February, the banks as a whole saw negligible changes to their EPS estimates. Beverage titan ThaiBev saw a slight downgrade to its 2018 EPS as sell-side analysts remain concerned over its relatively high gearing following the acquisition off Sabeco, as well as a slower than expected pace of consumption recovery in Thailand. Meanwhile, shipbuilder Yangzijiang saw a slight bump up in its EPS in March.

In terms of economic data, non-oil domestic exports (NODX) fell -5.9% year-on-year in February, falling from January's downward-revised 12.9% year-on-year increase and falling short of the consensus forecast for a 4.8% year-on-year rise. Electronic exports also disappointed in February, falling -12.3% year-on-year as compared to a prior -3.9% year-on-year decline. Pharmaceuticals and Petrochemicals all fell year-on-year for the month, while the components of the electronic exports data did not see a broad-based year-on-year decrease. While diodes and transitors and ICs fell, PCs and Disk products still recorded positive year-on-year increases. Exports to China, Malaysia, Hong Kong and Thailand fell, but to the US exports rose. Despite the decline in the data, we do not think that the overall trend is turning southwards – the robust global environment is likely to continue supporting the city's exports moving forward.

February's headline CPI came in at 0.5% year-on-year, as compared to a prior 0.0% change. Core CPI rose 1.7% year-on-year in the month, rising from January's 1.4% year-on-year increase and coming in above the consensus estimates of a 1.6% year-on-year print. On a month-on-month basis, core CPI rose 0.5%, up from a prior -0.2% decrease. Transport, health care and food costs rose, while the housing component declined in February. The latest data stayed within the 1.0% - 2.0% range that the MAS has guided for in 2018, and it remains to be seen if policy-makers will tighten monetary policy in their upcoming April meeting.

Financial markets took a hit once again in March as volatility rose amidst a rise in trade tensions from an increasingly protectionist America. The Straits Times Index (STI) fell -3.3% over the course of March, returning to the 3400 level seen at the start of 2018. Consequently, the Singapore market trades at 13.6X and 12.6X 2018's and 2019's estimated earnings, a discount to its fair PE ratio of 16.0X. Despite the rise in trade tensions between the US and some of her trading partners, we remain positive on Singapore given its attractive valuations and the prospect of good earnings fundamentals over the coming quarters, especially from the banking and real estate sectors, which collectively account for more than half of the STI. **We maintain a 4.0 Stars "Very Attractive" rating on the Singapore equity market.**

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 13.6X and 12.6X for 2018 and 2019 respectively, below our estimated fair PE ratio of 16.0X (as of 26 March 2018).
   - In addition, estimated PB ratios of the STI for 2018 and 2019 are 1.2X and 1.1X respectively, lower than its long-term historical average of 1.4X.
   - Estimated dividend yields of 3.8% and 3.9% in 2018 and 2019 respectively are appealing, which means that by being vested, you are 'paid to wait' for valuations to improve

2. Relatively Lower Risk In Times Of Volatility And Uncertainty
   - 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 third in the World Economic Forum's 2017-2018 Global Competitiveness Report, supporting the city state's status as the gateway to the East for MNCs.

Why we don't like it:

1. Dependence 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 growth of other economies (especially its major trading partners China, Malaysia, Hong Kong, Indonesia, and the US).
   - An escalation of trade tensions between an increasingly protectionist US and other major economies could affect the external trade environment and adversely impact growth.

2. Uncertainties In Oil Market Present Risks To The Banks' Earnings
   - Singapore's weak Oil & Gas sector has been the main contributor to the rise in non-performing loans (NPL) in Singapore's banking sector in recent times.
   - Supply-side factors continue to present risks to oil prices and, consequently, to the earnings of Singapore Oil & Gas companies and banks which possess exposures to them. The heavy-weight banking sector represents over 30% of the STI.

3. Fairly Large Exposure To 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.
   - While recent data suggest a recovery in the property market, the economy and the STI's exposure to the property sector is large enough to pose a risk if fortunes of the property market change for the worse.