SINGLE COUNTRIES

SINGAPORE (4.0 STARS — VERY ATTRACTIVE)

- Purchasing Managers Index came in at 52.8 in Dec 17, down slightly from 52.9 in Nov 17
- Electronics sector PMI fell to 53.2 in Dec 17 from 53.5 in Nov 17
- Retail sales rose 5.3% y-o-y in Nov 17, improving from a -0.2% y-o-y decrease in Oct 17
- Retail sales ex-autos rose a 4.7% y-o-y in Nov 17, after rising 0.7% y-o-y in Oct 17
- Non-oil domestic exports rose 3.1% y-o-y in Dec 17, cooling from a 9.1% y-o-y increase in Nov 17
- Electronic exports fell -5.3% y-o-y in Dec 17, after a 5.1% y-o-y increase in Nov 17
- CPI came in at 0.4% y-o-y in Dec 17, down from 0.6% y-o-y in Nov 17
- Core CPI came in at 1.3% y-o-y in Dec 17, down from 1.5% in Nov 17
- Industrial production fell -3.9% y-o-y in Dec 17, after a 5.3% increase in Nov 17

MARKET OUTLOOK

Over the course of January as of 29 January 2018, the 2018 and 2019 earnings estimates of Singapore corporations were revised upwards by 2.4% and 2.8% respectively. For the whole of 2018 and 2019, the earnings of Singapore companies are expected to grow 12.2% and 7.3% respectively as of 29 January 2018. The strong performance of Singapore's technology stocks in recent times has seen Venture Corporation added to the Straits Times Index on the 5 January 2017, in place of Global Logistic Properties (GLP) which was taken private, giving the technology sector a representation on the index. Since the time Venture Corporation was added to the index till 29 January 2018, the company has seen its 2018 EPS revised upwards slightly by 0.9%. Over the month, the industrials sector saw some of the greatest earnings upgrades. In particular, conglomerate Keppel Corporation saw a double-digit upgrade in its 2018 earnings estimates on the back of an upturn in the city's property market as well as greater optimism with regards to the global oil industry's outlook. Meanwhile, the heavy-weighted banking sector saw earnings estimates revised downwards slightly over the month, while the earnings estimates of the next heavily-weighted sector, the real estate sector, saw overall mixed earnings revisions. CapitaLand Commercial Trust, which recently posted a decline in its 4Q 2017 DPU and which is expected to see higher expiring leases over the near term, saw the greatest downgrade in its earnings estimates over the month.

Signs of a softening expansion in the global semiconductor industry have become more apparent in the city's recent exports and manufacturing output figures. For the month of December 2017, Singapore's NODX rose 3.1% year-on-year, down from prior month's 9.1% increase, as electronics exports declined -5.3% year-on-year. Through 2017, December is the second month for which electronics exports had declined on a year-on-year basis, the first being in September. In December 2017, Singapore's manufacturing output had also contracted -3.9% year-on-year, making December the first month for which manufacturing output has contracted on a year-on-year basis since August 2016. The electronics cluster had recorded a slight 4.2% year-on-year increase in its output in December 2017, compared to its growth of more than 20% year-on-year since late 2016. As growth in the global semiconductor industry matures, it is likely that the pace of NODX and manufacturing expansion slow from their highs last year. Nonetheless, a continued upswing in global trade is likely to support the city's external demand and growth is likely to be increasingly broad-based amongst the sectors in Singapore, leading us to estimate the Singapore economy to potentially grow 3.5% for the full year 2018.

In November 2017, Singapore's retail sales rebounded 5.3% year-on-year, up from the -0.2% decline the month before, on the back of increased sales in 9 out of 13 industries. Other recently-released economic data include the city's December consumer price inflation which came in at 0.4% year-on-year, down from November's 0.6% figure amid lower services inflation and a smaller increase in the cost of private road transport. For the full year 2017 nonetheless, headline inflation came in at 0.6%, making it the first time in 3 years for which the city has recorded positive headline inflation and is reflective of the city's notable pickup in economic growth in recent times. At this juncture, official forecasts are for the city to see its headline and core inflation for full year 2018 at levels similar to that seen in 2017. According to a statement jointly released by the MAS and MTI on the 23 January 2018, expectations are for headline inflation to be 0-1% this year, while core inflation is expected to come in at around 1-2% this year.

Over the course of January as of 29 January 2018, the STI rose 5.1% and its 2018 and 2019 PE ratios stand at 14.6X and 13.6X respectively, suggesting that the index is trading at a discount to its fair PE ratio of 16.0X. Despite its 18.1% rally in 2017, we remain positive on the market given 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. At this juncture, **we think that a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted.**

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