SINGLE COUNTRIES

SINGAPORE (4.0 STARS — VERY ATTRACTIVE)

- Singapore's GDP grew 2.5% y-o-y (advance estimates) in 2Q 17, on par with 1Q 17's GDP growth
- Purchasing Managers Index came in at 50.9 in Jun 17, up from 50.8 in May 17
- Electronics sector PMI fell to 52.1 in Jun 17 from 52.4 in May 17
- Retail sales rose 0.9% y-o-y in May 17, down from a upward-revised 2.7% y-o-y increase in Apr 17
- Retail sales ex-autos rose 0.6% y-o-y in May 17, down from a 5.0% y-o-y increase in Apr 17
- Non-oil domestic exports rose 8.2% y-o-y in Jun 17, after rising 0.4% y-o-y in May 17
- Electronic exports rose 5.4% y-o-y in Jun 17, down from a 28.9% y-o-y increase in May 17
- CPI rose 0.5% y-o-y in Jun 17, down from a 1.4% y-o-y increase in May 17
- Core CPI rose 1.5% y-o-y in Jun 17, slightly lower than the 1.6% y-o-y increase in May 17
- Industrial production rose 13.1% y-o-y in Jun 17, up from a 4.4% y-o-y increase in May 17

MARKET OUTLOOK

Over the course of July as of 24 July 2017, the 2017 and 2018 earnings estimates of Singapore companies were little changed and they were revised upwards by 0.2% and downwards by -0.1% respectively. For the whole of 2017 and 2018, as of 24 July 2017, the earnings of Singapore companies are expected to grow 5.8% and 6.9% respectively. In the month of July, the earnings revisions over in the real estate sector were mixed, with CapitaLand Commercial Trust and Global Logistic Properties Ltd seeing some of the largest earnings upgrades and Hongkong Land Holdings Ltd and CapitaLand Mall Trust seeing some of the largest earnings downgrades in the sector. The heavy weight banking sector saw better-than-average earnings upgrades over the month, with DBS seeing the greatest upward revision (0.6%). Amid lingering concerns regarding global oil production, particularly that produced in the US, conglomerate Keppel Corp was one of the companies in the STI which saw the largest earnings downgrades. Hutchison Port Holdings Trust too saw its earnings downgraded over the month amid the release of its 2Q 2017 net profit which came in -21.5% lower when compared to the same period last year.

In mid-July, Singapore released the advance estimates of her 2Q 2017 GDP numbers, which showed the city's GDP to have grown 2.5% year-on-year, falling short of economist expectations of a 2.7% growth and coming on par with 1Q 2017's GDP growth. The primary driver of growth continued to be the country's manufacturing sector, which recorded a 8.0% year-on-year growth in output in 2Q 2017, slightly lower than its 1Q 2017's 8.5% growth amid a weaker pharmaceuticals output. The electronics and precision engineering manufacturing clusters, on the other hand, continued to drive growth in the sector amid the recovery in the global semiconductors industry. A notable detractor of growth in the quarter was the construction sector, which recorded a -5.6% year-on-year decline in output amid the still weak real estate sector. Looking ahead, it remains likely that the country's economic growth would be supported, given continued strength in the manufacturing sector which would likely more than make up for weaknesses in the construction sector. Aside from the manufacturing sector, which is relatively externally-orientated, other externally-orientated sectors such as the transport & storage sector would likely see improved growth amid the pickup in global trade. It remains likely that growth in 2017 would surpass the 2.0% growth seen in 2016.

In June, Singapore's manufacturing PMI had held up well, coming in at 50.9, up from prior month's 50.8 reading and is the tenth consecutive month to come in above the 50.0 reading, signalling continued growth in the city's manufacturing output. The increase in PMI is despite the slight drop in electronics PMI reading to 52.1 in June from 52.4 in May. Meanwhile, industrial production numbers showed a 13.1% year-on-year increase in manufacturing output in June, up from prior month's 4.4% growth and further supports observations of continued momentum in the sector thus far. Singapore's retail sales rose 0.9% year-on-year for the month of May, after having risen by 2.7% year-on-year in April, which is the fastest rate of increase since August 2016. Headline inflation (gauged by the CPI) rose 0.5% year-on-year in June, down from a prior 1.4% year-on-year increase as base effects associated with the disbursement of the Service & Conservancy Charges (S&CC) rebates dissipated, resulting in a 3.9% year-on-year fall in the cost of accommodation in June which was larger than the 1.5% decline in May. Core CPI too, eased slightly to 1.5% from a prior a 1.6% year-on-year increase on the back of lower services and food inflation. Inflation is expected to rise modestly in 2017 given that while oil prices are likely to average higher this year from their lows last year, the slackened labour market would likely dampen domestic consumption slightly. As of 24 July 2017, the MAS and MTI maintained their stance that headline inflation is expected to pick up to 0.5–1.5% in 2017.

Over the course of July, as of 24 July 2017, the Straits Times Index has risen 2.6% and currently trades at estimated PE ratios of 15.0X and 14.0X 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 and stabilisation of crude oil prices in 2017. **We think a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted at this juncture**.

RECOMMENDED FUND:
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