SECTOR REVIEW

SOUTH EAST ASIA

SINGAPORE – 4.5 STARS (VERY ATTRACTIVE)

- Purchasing Managers Index fell to 48.7 in Nov 11, down from 49.5 in Oct 11
- Electronics sector PMI fell to 50.9 in Nov 11, down from 52.1 in Oct 11
- Retail sales rose 8.5% y-o-y in Oct 11, after an upward-revised 0.2% gain in Sep 11
- Retail sales ex-autos rose 8.6% y-o-y in Oct 11, after an upward-revised 3.5% y-o-y increase in Sep 11
- Non-oil domestic exports rose 1.6% y-o-y in Nov 11, after a downward-revised -16.2% y-o-y decline in Oct 11
- CPI for Nov 11 rose 5.7% y-o-y, after rising 5.4% y-o-y in Oct 11
- Industrial production for Nov 11 declined by a hefty -25.2% m-o-m, after a downward-revised 12.8% increase in Oct 11
- Bank loans and advances rose 30.5% y-o-y in Nov 11, up from 29.8% y-o-y growth in Oct 11
- The URA's flash estimate of private residential property prices saw a 0.2% q-o-q increase in 4Q 11, a moderation from a 1.3% q-o-q increase in 3Q 11
- Advance estimates for 4Q 11 GDP saw the economy contract by -4.9% on a q-o-q annualised basis, after a downward-revised 1.5% expansion in 3Q 11
- On a y-o-y basis, 4Q 11 GDP growth was 3.6% following 5.9% y-o-y growth in 3Q 11; advance estimates place 2011 full-year growth at 4.8%

MARKET OUTLOOK

The Ministry of Trade and Industry released advance estimates for Singapore's GDP growth, placing 2011 full-year growth at 4.8%, a tad shy of recent government forecasts of 5% growth. On a quarter-on-quarter basis, Singapore's economy contracted by -4.9% on an annualised basis, led by a sharp -21.7% decline in the manufacturing sector, which was hurt by weakness in the key electronics segment. Construction also posted a quarter-on-quarter contraction, while Services remained a bright spot, turning in a 3.4% annualised quarter-on-quarter expansion, possibly aided by strong tourism numbers so far in 2011. Visitor arrivals have posted a 14.9% year-on-year increase over the first three quarters of 2011, and tourism-related activities are likely to continue to be a rare bright spot among the various segments of the Singapore economy. The government continues to maintain a GDP forecast of 1-3% growth for 2012, highlighting the continued external uncertainty which threatens to hurt Singapore's exports going into 2012.

The Ministry of National Development (MND) recently announced additional cooling measures in the residential property market, in the form of additional buyer's stamp duty (ABSD). In addition to the tier-system stamp duty prior to the new measures (1% on the first $180,000, 2% on subsequent $180,000, and 3% on the remainder), the government will impose a hefty 10% ABSD on foreigners or corporate entities. Permanent residents looking to buy a second (or more) residential property will pay ABSD of 3%, while Singapore citizens looking to buy a third (or more) residential property will be subjected to ABSD of 3%.

The latest measures are a near-term negative for property developers with an anticipated trend in lower average selling prices (ASPs) and transactional volumes, which will hurt profitability. Nevertheless, most large-cap property developers in Singapore are relatively well diversified, not just across sectors (industrial and commercial), but also geographically. Within the STI, we identify City Developments (about 3% of the index, and expected to contribute a similar percentage of index earnings in 2011) as being affected to a larger extent, given its focus on residential developments in Singapore, while other developers are more diversified and should be more shielded from the latest measures. We have already factored in lower-than-consensus earnings estimates for property companies and banks in our forecasts for 2012, and will not be making any changes to our earnings estimates on the back of these developments.

As of 31 December 2011, we have STI EPS estimates of 205.20, 192.01 and 260.97 for 2011, 2012 and 2013 respectively. On these estimates, the market trades at 12.9X, 13.8X and 10.1X 2011, 2012 and 2013 earnings respectively, representing hefty discounts to our fair value estimate of 16X for Singapore equities. We maintain a 4.5 star "very attractive" rating on the Singapore equity market.