SINGLE COUNTRIES

SINGAPORE (4.0 STARS — VERY ATTRACTIVE)

- Singapore's economy grew 4.6% y-o-y in 3Q 17 (advanced estimates) up from 2.9% y-o-y in 2Q 17
- Purchasing Managers Index came in at 52.0 in Sep 17, up from 51.8 in Aug 17
- Electronics sector PMI rose slightly to 53.6 in Sep 17 from 53.2 in Aug 17
- Retail sales rose 3.5% y-o-y in Aug 17, up from an downward-revised 1.7% y-o-y increase in Jul 17
- Retail sales ex-autos rose 3.7% y-o-y in Aug 17, up from a 2.0% y-o-y increase in Jul 17
- Non-oil domestic exports fell -1.1% y-o-y in Sep 17, after rising 16.7% y-o-y in Aug 17
- Electronic exports declined -7.9% y-o-y in Sep 17, down from a 20.8% y-o-y increase in Aug 17
- CPI rose 0.4% y-o-y in Sep 17, unchanged from its level in Aug 17
- Core CPI rose 1.5% y-o-y in Sep 17, slightly higher than the 1.4% y-o-y increase in Aug 17
- Industrial production rose 14.6% y-o-y in Sep 17, down from a 19.5% y-o-y increase in Aug 17

MARKET OUTLOOK

Little was changed with regards to the earnings estimates of Singapore companies over the course of October. As of 27 October 2017, the earnings estimates of Singapore corporates for the years 2017, 2018 and 2019 were revised upwards by a slight 0.4%, 0.4% and 0.1% respectively over the month. For the whole of 2017, 2018 and 2019 the estimated earnings growth of Singapore companies stood at 5.2%, 8.0% and 6.8% respectively as of 27 October 2017. Several companies which saw the largest earnings upgrades over the month were from the real estate sector while the companies which saw the largest earnings downgrades were from the consumer discretionary sector. Over in the heavy-weighted financials sector, revisions in earnings estimates were mixed. OCBC, which recently announced a 12% year-on-year earnings growth in 3Q 2017, saw its estimated 2017 earnings revised upwards by 2.1% over the month. Meanwhile, DBS and UOB saw slight earnings downgrades of -0.5% and -0.3% respectively over the month.

Based on advanced estimates, Singapore's GDP grew 4.6% year-on-year in 3Q 2017, its highest growth rate in more than 3 years. The figure notably surpasses expectations of a 3.8% growth and is up from the second quarter's 2.9% growth. While much of the city's growth in the quarter can be attributed to the manufacturing sector, which surged 15.5% year-on-year, up from its 8.5% (1Q 2017) and 8.2% (2Q 2017) year-on-year growth in the prior two quarters; a more broad-based growth had continued to be witnessed. The aggregate growth of services producing industries (which was supported, more so, by the finance & insurance sector and more externally-oriented sectors such as the wholesale & retail trade and transportation & storage sectors) had extended its uptrend and came in at 2.6% year-on-year. While it is unsurprising growth in the electronics manufacturing cluster moderates slightly from its highs this year over the coming quarters, it is likely to remain robust at large, thus providing continued support to the city's manufacturing sector growth. Additionally, improving global growth as well as a more broad-based growth amongst the sectors in Singapore should also further support the city's headline growth over the coming quarters. Meanwhile, growth in the construction sector, a current laggard in the economy, could see some support from government projects which have been brought forward to next couple of quarters. As widely expected, the Monetary Authority of Singapore (MAS) made no changes to its monetary policy in its October meeting. Given the city's growth outlook as well as the central bank's expectation for core inflation to continue trending upwards over the medium term, it is unsurprising the bank deems it fit to tighten in 2018.

In the month of September, Singapore's industrial production grew 14.6% year-on-year slowing from prior month's 19.5% expansion but continued to exceed expectations (expected 10.0% year-on-year in September). Growth was largely led by the electronics cluster which grew 33.2% year-on-year, while the transport engineering cluster (contracted 10.8% year-on-year) remained a laggard amid continued weakness in the marine and offshore engineering segment. Singapore's NODX dipped a slight -1.1% year-on-year after having surged 16.7% the month before on the back of a decline in electronics NODX. Meanwhile, retail sales grew 3.5% year-on-year in August, its fastest growth rate year-to-date as unemployment rate dipped for the first time in seven quarters (came in at 2.1% in 3Q 2017, down slightly from 2.2% in 2Q 2017). Core inflation remained unchanged from August (at 0.4% year-on-year in September). Nonetheless, as aforementioned, MAS had expressed in its October meeting, that it currently expects core inflation to trend upwards, albeit average "slightly below 2%". As at 23 October 2017, the MTI and MAS stated their expectations for core inflation to be around 1.5% in 2017 (the middle of its previously-quoted forecast range of 1.0-2.0%) and average 1.0–2.0% in 2018; while CPI-All Items inflation is projected to come in at around 0.5% this year (the low end of its previously-quoted forecast range of 0.5-1.5%), and stay in the range of 0.0–1.0% next year.

Over the course of October, as of 27 October 2017, the Straits Times Index gained 5.2% and currently trades at estimated PE ratios of 15.4X, 14.3X and 13.4X for 2017, 2018 and 2019 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.**

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