SOUTH EAST ASIA

SINGAPORE – 4.0 STARS (VERY ATTRACTIVE)

- Purchasing Managers Index came in at 50.8 in May 17, down from 51.1 in Apr 17
- Electronics sector PMI increased to 52.4 in May 17 from 51.6 in Apr 17
- Retail sales rose 2.6% y-o-y in Apr 17, up from a downward-revised 2.0% y-o-y increase in Mar 17
- Retail sales ex-autos rose 4.9% y-o-y in Apr 17, up from a 0.5% y-o-y increase in Mar 17
- Non-oil domestic exports fell -1.2% y-o-y in May 17, extending the -0.8% y-o-y decrease in Apr 17
- Electronic exports surged 23.3% y-o-y in May 17, up from a 4.8% y-o-y increase in Apr 17
- CPI rose 1.4% y-o-y in May 17, up from a 0.4% y-o-y increase in Apr 17
- Core CPI rose 1.6% y-o-y in May 17, slightly lower than the 1.7% y-o-y increase in Apr 17
- Industrial production rose 5.0% y-o-y in May 17, down from an upward-revised 6.7% increase in Apr 17

MARKET OUTLOOK

Over the course of June as of 26 June 2017, the 2017 and 2018 earnings estimates of Singapore companies were revised upwards slightly by 0.3% and 0.4% respectively. For the whole of 2017 and 2018, as of 26 June 2017, the earnings of Singapore companies are expected to grow 1.6% and 7.7% respectively. In the month of June (as of 26 June 2017), companies across a range of sectors were seen with the largest earnings upgrades, including palm oil company Golden Agri-Resources Ltd, leisure company Genting Singapore PLC and Oversea-Chinese Banking Corp Ltd. Meanwhile, companies with the largest earnings downgrades were largely transport-related, including Singapore Airlines Ltd and ComfortDelGro Corp Ltd.

Upward revisions in earnings over the month in Singapore's heavy-weight banking sector was led by OCBC (which reported the highest year-on-year growth in 1Q 2017 net profit amongst Singapore's 3 largest banks) which saw its 2017 estimated EPS revised upward by 1.1% while DBS and UOB saw their earnings revised upwards by 0.4% each. The rising interest rate environment would likely see the banks' net interest margins supported while improving regional and global growth would likely support the banks' external loan growth. In Singapore's real estate sector, an average 0.1% upward revision was witnessed over the month, with CapitaLand Ltd, leading with a 0.5% upward revision and Global Logistic Properties Ltd lagging the sector with a -0.2% dip in 2017 estimated earnings. The private residential property market has started to show signs of bottoming out, with a positive take-up rate and decrease in vacancy rate in 1Q 2017. Meanwhile, the decline in the prices and rents of office properties could slow or be contained amid improving domestic economic growth. While the prices and rents of industrial properties, however, are likely to remain weak amid the greater supply of properties estimated to come on-stream in the remaining quarters of the year.

Singapore's non-oil domestic exports (NODX) decreased year-on-year (by -1.2%) for the second consecutive month in May 2017 primarily due to the decrease in non-electronic NODX (-9.0% year-on-year in May, down from -2.9% in April). Electronic NODX had continued to climb in May 2017 (grew by 23.3% year-on-year), increasing for the seventh consecutive month and reaching its highest year-on-year growth rate since March 2012. Going forward, it remains likely that strong electronic NODX, amid the continued recovery in the global semiconductors industry, would continue to support the city's exports. Electronics PMI had continued to increase, coming in at 52.4 in May, higher than the broad manufacturing PMI of 50.8 in the same period and reaching its highest recorded reading since October 2014.

In May, Singapore's industrial production had grown 5.0% year-on-year on the back of strong growth in the electronics and precision engineering manufacturing clusters while the transport engineering and biomedical manufacturing clusters continued to be laggards. Despite continued weaknesses in the city's manufacturing sector, we believe strength in the electronics and precision engineering manufacturing clusters would likely outweigh the sector's weaknesses, resulting in the manufacturing sector's supported growth. Meanwhile, Singapore's retail sales rose 2.6% year-on-year for the month of April 2017, extending March's increase and coming in as fastest rate of increase since August 2016. Headline inflation (gauged by the CPI) rose 1.4% year-on-year in May, up from a prior 0.4% year-on-year increase, however core CPI however eased slightly to 1.6% from a prior a 1.7% year-on-year increase. 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 23 June 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 June, as of 26 June 2017, the Singapore equity market has remained largely unchanged compared to that in end-May 2017 (0.0% change), with the Straits Times Index trading at estimated PE ratios of 14.6X and 13.5X 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.**

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 14.6X and 13.5X for 2017 and 2018 respectively, significantly below our estimated fair PE ratio of 16.0X (as of 26 June 2017).
   - In addition, estimated PB ratios of the STI for 2017 and 2018 are 1.19X and 1.14X respectively, lower than its long-term historical average of 1.4X.
   - Estimated dividend yields of 3.5% and 3.6% in 2017 and 2018 respectively are fairly appealing.

2. Relatively Lower Risk In Times Of Volatility And Uncertainty
   - In recent years, the STI has been less volatile as compared to several ASEAN peer equity indices such as Indonesia's JCI Index, Malaysia's KLCI Index, as well as other Asian equity indices; notably Hong Kong's Hang Seng Index and Japan's Nikkei 225 Index. The single one-day drop from the Brexit result on 24 June 2016 saw the STI fall -2.1%, less than the -2.9% decline seen in the Hang Seng Index.
   - 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 second in the World Economic Forum's 2016-2017 Global Competitiveness Report, supporting the city state's status as the gateway to the East for MNCs.

Why we don't like it:

1. Reliant 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 exposed to the global economy, especially the economies of its major trading partners (China, Malaysia, Hong Kong, Indonesia).
   - While global growth is expected to pick up in 2017, particularly with the continued stabilisation in the Chinese economy and strength in the US economy, Singapore's reliance on trade no doubt remains a risk as this results in growth that is dependent on the growth in other economies, to a notable degree.

2. Ailing Oil & Gas Sector Continues To Adversely Impact Banks' Profitability
   - Singapore's ailing Oil & Gas sector has continued to significantly contribute to the rise in the banks' non-performing loans (NPL) as of 1Q 2017, despite the banks having a relatively small exposure to the sector. Although oil prices are expected to average higher in 2017 and the amount of NPLs might be near their peaks, the very gradual recovery in oil prices would likely continue to exert stress on the profits of the country's Oil & Gas sector which would likely result in still high NPLs attributed by the sector. While there exists a good chance of the formation of new NPLs, if any, slowing, the still high NPLs attributed by the Oil & Gas sector would likely continue to be a drag on the profitability of the banks over the coming quarters. Singapore banks represent over 30% of the STI and form the largest sector.

3. Still Weak 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. The recent easing of cooling measures by the Singapore government as well as anticipation of a bottoming out of the real estate market had contributed to in the increase in the valuations of property sector stocks which, in turn, had significantly contributed to the rally in the STI year-to-date.
   - Despite the above, the risk that the still weak property market continues to be a drag on the economy lingers over the coming quarters. The latest data revealed that property prices and rentals had continued to decline. Moreover, the sector continues to remain vulnerable not only to cooling measures but also to future interest rate increases and the performance of local retail sales.