SINGLE COUNTRIES

SINGAPORE (4.0 STARS — VERY ATTRACTIVE)

- Based on advanced estimates, Singapore's GDP grew 2.5% y-o-y in 1Q 2017, down from the 2.9% y-o-y growth in 4Q 2016
- Purchasing Managers Index came in at 51.2 in Mar 17, up from 50.9 in Feb 17
- Electronics sector PMI rose slightly to 51.8 in Mar 17 from 51.4 in Feb 17
- Retail sales declined by -2.5% y-o-y in Feb 17, after a 2.3% y-o-y increase in Jan 17
- Retail sales ex-autos fell by -4.9% y-o-y in Feb 17, after a 2.4% y-o-y increase in Jan 17
- Non-oil domestic exports surged 16.5% y-o-y in Mar 17, extending the 21.1% y-o-y increase in Feb 17
- Electronic exports rose 5.2% y-o-y in Mar 17, easing from a 17.2% y-o-y increase in Feb 17
- CPI rose 0.7% y-o-y in Mar 17, on par with the 0.7 y-o-y increase in Feb 17
- Core CPI rose 1.2% y-o-y in Mar 17, on par with the 1.2% y-o-y increase in Feb 17
- Industrial production rose 10.2% y-o-y in Mar 17, on par with the downward revised 10.2% increase in Feb 17

MARKET OUTLOOK

As of 24 April 2017, the 2017 and 2018 earnings estimate for the Straits Times Index have been revised upwards slightly over the month, by 0.7% and 0.4% respectively. On a whole, the earnings of Singapore companies are expected to rise by 5.1% in 2017 before rising by 7.1% in 2018. As of 24 April 2017, the heavy-weight banking sector saw its 2017 EPS estimates remain largely unchanged over the month while the next largest sector in the STI, the real estate sector, saw diverging 2017 EPS estimate revisions, with CapitaLand Ltd seeing an upward revision of 2.4% and CapitaLand Commercial Trust seeing a downward revision of -2.1%. Oil-linked companies saw their estimated 2017 EPS downgraded over the month amid continued weakness in the offshore & marine industry and oversupply concerns. Companies like Keppel Corp Ltd saw its 2017 EPS estimate downgraded by -4.9% while Sembcorp Industries Ltd saw a smaller -0.3% downgrade in its 2017 EPS estimate over the month.

On the 13 April 2017, advanced estimates for Singapore's GDP growth in 1Q 2017 came in at 2.5% year-on-year, missing expectations of a 2.6% growth and easing from prior quarter's 2.9% year-on-year growth. On a seasonally adjusted quarter-on-quarter basis, the city contracted -1.9% in 1Q 2017 (advanced estimates), after the prior quarter's 12.3% surge. 1Q 2017's GDP growth was led by growth in the manufacturing sector which came in at 6.6% year-on-year, while the services sectors collectively grew a smaller 1.5% year-on-year and the construction sector contracted -1.1% year-on-year on the back of a slowdown in private sector construction activities. While the manufacturing sector's expansion had eased from the prior quarter's 11.5% surge, it remains likely that growth in the sector will continue to be driven by the recovery in the global semiconductor's industry, and in turn continue to be one of the main drivers of the city's growth in the coming quarters. The construction and services sectors, while still weak, have started to show signs of improvement. In addition, should the real estate sector bottom out over the next few quarters, growth in the construction sector and business services, a service sector, would likely be much better supported. On a whole, improvement in global growth over the next few quarters should see general businesses in the highly export and externally-oriented economy benefit from supported growth. In addition to the release of GDP numbers in April 2017, the Monetary Authority of Singapore (MAS) had also announced that it will be maintaining its neutral policy stance of a zero appreciation of the S$NEER policy band, as the central bank continues to be cautious with risks facing the economy in the near term.

Singapore's February retail sales fell -2.5% year-on-year, in part due to a high base effect as the Lunar New Year had taken place in February last year and bumped up the retail sales in that month (the Lunar New Year took place in January this year). For the month of March 2017, Singapore's Non-Oil Domestic Exports (NODX) surged on a year-on-year basis (by 16.5%) extending its preceding four months of high single-digit to double-digit growth, amid an increase in its exports to all of its top 10 export destinations as well as an increase in both electronic and non-electronic products. Headline inflation came in at 0.7% year-on-year in March 2017, coming in on par with February 2017's 0.7% year-on-year increase, and has become the fourth consecutive month in 2 years in which consumer prices have increased on a year-on-year basis. 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 April 2017, the MAS and MTI maintained their stance that headline inflation is expected to pick up to 0.5–1.5% in 2017.

On current estimates as of 24 April 2017, the Singapore equity market, as represented by the Straits Times Index, has dipped -1.0% month-to-date and trades at estimated PE ratios of 14.5X and 13.5X for 2017 and 2018 respectively, representing a significant discount to its fair PE of 16.0X. The earnings growth of Singapore companies would likely improve from that in 2016 in view of improved global and domestic economic conditions as well as a possible bottoming out of the private residential property sector and higher average oil prices in 2017 which should support oil & gas sector. **We think a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted at this juncture.**