SOUTH EAST ASIA

SINGAPORE – 4.0 STARS (VERY ATTRACTIVE)

- Singapore's economy grew 3.5% for the full year 2017 based on advanced estimates
- Purchasing Managers Index came in at 52.9 in Nov 17, up slightly from 52.6 in Oct 17
- Electronics sector PMI increased to 53.5 in Nov 17 from 53.3 in Oct 17
- Retail sales dipped -0.1% y-o-y in Oct 17, improving from a -0.6% y-o-y decrease in Sep 17
- Retail sales ex-autos rose a smaller 0.8% y-o-y in Oct 17, after rising 3.3% y-o-y in Sep 17
- Non-oil domestic exports rose 9.1% y-o-y in Nov 17, after a 20.5% y-o-y increase in Oct 17
- Electronic exports rose 5.2% y-o-y in Nov 17, up from a 4.5% y-o-y increase in Oct 17
- CPI came in at 0.6% y-o-y in Nov 17, up from 0.4% y-o-y in Oct 17
- Core CPI came in at 1.5% y-o-y in Nov 17, unchanged from that in Oct 17
- Industrial production rose 5.3% y-o-y in Nov 17, after a 14.5% increase in Oct 17

MARKET OUTLOOK

Over the course of December as of 27 December 2017, the 2017, 2018 and 2019 earnings estimates of Singapore corporations little changed and were revised upwards slightly by 0.2%, 0.4% and 0.3% respectively. For the whole of 2017, 2018 and 2019, the earnings of Singapore companies are expected to grow 5.6%, 10.4% and 6.9% respectively as of 27 December 2017. The telecommunications sector saw upward earnings revisions over the month, with Singtel seeing a 2.4% upward revision in its 2017 earnings; while the consumer staples sector saw earnings largely downgraded over the month. Meanwhile, mixed earnings revisions were witnessed over in the banking and real estate sectors. While OCBC and UOB saw continued upgrades in their 2017 earnings estimates, DBS saw a -0.6% dip in its 2017 earnings estimates over the month, extending its downward revision the month before upon the recognition of significant oil & gas bad debt allowances in 3Q 2017. Meanwhile, in the oil & gas sector, the 2017 earnings estimates of Sembcorp Industries were unchanged over the month, although Keppel Corp saw a -6.1% downgrade in its earnings following news of a USD 422 million fine imposed on the company for corrupt payments by a former Keppel agent.

Based on advanced estimates, Singapore's GDP grew 3.1% year-on-year in 4Q 17, bringing growth for the full year 2017 to come in at 3.5%. Both figures had surpassed market expectations of 2.6% year-on-year growth and 3.3% growth respectively. The manufacturing sector, which makes up approximately a fifth of Singapore's economy, had continued to be a key pillar of growth, as it grew 6.2% year-on-year in 4Q 17, and 10.5% for the full year 2017, up from 3.6% in 2016. Contrastingly, continued weakness was witnessed in the construction sector, as it contracted -8.5% year-on-year in 4Q 17, bringing its decline for the full year 2017 to come in at -8.1%, down from a 0.2% growth in 2016. Services producing industries grew 3.0% year-on-year in 4Q 17 and 2.5% for the full year 2017, up from 1.0% in 2016.

Over the coming quarters, while growth in the city's manufacturing sector is likely to remain robust at large, the sector's growth may moderate from its highs in 2017 as expansion in the global semiconductor industry softens. Nonetheless, an increasingly broad-based growth is likely to be witnessed amongst sectors, with more significant growth rates being witnessed from the finance & insurance, wholesale & retail trade and transportation and storage sectors. While the construction sector is likely to remain a laggard in the economy, its rate of decline may improve on the back of the public projects brought forward from 2017. Additionally, it is likely the construction sector benefits from the recovering property market in Singapore, although it is unsurprising this benefit becomes more apparent in late 2018 and beyond. As a whole, we estimate the Singapore economy to potentially grow 3.5% for the full year 2018.

For the month of November, Singapore's manufacturing sector grew 5.3% year-on-year, after expanding 14.5% the month before, on the back of weaker showing from the biomedical manufacturing cluster. On the other hand, the city's manufacturing PMI and electronics PMI had extended their uptrends in November, boding well for manufacturing expansion. NODX grew a smaller 9.1% in November compared to its 20.5% growth the month before on the back of slower growth in non-electronic products. Retail sales dipped a smaller -0.1% year-on-year in October compared to the month before on the back of a smaller decline in motor vehicle sales. Headline CPI rose slightly to 0.6% year-on-year in November from a prior 0.4%, although core CPI remained unchanged at 1.5% year-on-year. As of 26 December 2017, the MTI and MAS maintained their headline CPI forecast for 2017 at 0.5% and 0-1% in 2018, and maintained their core CPI forecast for 2017 at 1.5% and 1-2% in 2018.

Over the course of December as of 27 December 2017, the STI dipped -1.2% and its 2017, 2018 and 2019 PE ratios stand at 15.5X, 14.1X and 13.2X respectively, suggesting that the index is trading at a discount to its fair PE ratio of 16.0X. Despite its 17.7% rally in 2017 (as of 27 December 2017), we remain positive on the market given the prospect of good earnings fundamentals over the coming quarters, especially from the banking and real estate sectors, which collectively account for more than half of the STI. At this juncture, **we think that a 4.0 Stars "Very Attractive" rating on the Singapore equity market continues to be warranted.**

RECOMMENDED FUND:
NIKKO AM SINGAPORE DIVIDEND EQUITY FUND - MYR CLASS

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 14.1X and 13.2X for 2018 and 2019 respectively, below our estimated fair PE ratio of 16.0X (as of 27 December 2017).
   - In addition, estimated PB ratios of the STI for 2018 and 2019 are 1.1X and 1.2X respectively, lower than its long-term historical average of 1.4X.
   - Estimated dividend yields of 3.3% and 3.5% in 2018 and 2019 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 third in the World Economic Forum's 2017-2018 Global Competitiveness Report, supporting the city state's status as the gateway to the East for MNCs.

Why we don't like it:

1. Dependence 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 dependent on the growth in other economies, to a notable degree, especially its major trading partners (China, Malaysia, Hong Kong, Indonesia).
   - While global growth is likely to continue picking up, particularly with the continued stabilisation in the Chinese economy and strength in the US economy, the Singapore economy's reliance on trade no doubt remains a risk.

2. Uncertainties In Oil Market Present Risks To The Banks' Earnings
   - Singapore's weak Oil & Gas sector has been the main contributor to the rise in non-performing loans (NPL) in Singapore's banking sector in recent times.
   - Supply-side factors continue to present risks to oil prices and, consequently, to the earnings of Singapore Oil & Gas companies and banks which possess exposures to them. The heavy-weight banking sector represents over 30% of the STI.

3. Fairly Large Exposure To 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.
   - While recent data suggest a recovery in the property market, the economy and the STI's exposure to the property sector nonetheless remain risks.