Strategy report

Singapore Strategy – Recovery will favour SG stocks

Singapore | Equities

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Investment summary

Our quarter-by-quarter market strategy reports in 2020 were able to effectively match and capture market actions, but we believe that the global economic recovery is going to be largely uneven across different markets. With the resurgence of cases in Europe, US and Japan, there is also the heightened risk that the recovery may be delayed despite optimism over the impending deployment of vaccines. Companies which were able to play into the digitalisation of economies will continue to benefit and look set to continue to grow. Favourable vaccine news has lifted optimism in the market and together with a low interest rate environment, equities are likely to remain in focus. The recovery theme is likely to favour the cyclical-heavy Singapore market, which could result in a re-rating. Singapore will enter Phase 3 on 28 Dec 2020, and this is positive and points to a gradual return to normalcy. As we are expecting the operating environment to become more challenging with tighter scrutiny and regulations, especially for high-growth sectors, Singapore stocks are good additions to provide for a more diversified and broader equity portfolio. Our preferred picks in Singapore are **Ascendas REIT, Ascott Residence Trust, CapitaLand Integrated Commercial Trust, CapitaLand Ltd, Frasers Centrepoint Trust, Frasers Logistics & Commercial, Keppel DC REIT, Manulife US REIT (USD), Mapletree Industrial Trust, Mapletree North Asia Commercial Trust, NetLink NBN Trust, Sheng Siong Group, Singapore Telecommunications, Thai Beverage, Venture Corp** and **Wilmar International.**

- **Recovery is likely to be uneven**
- **Near term volatility, but LT outlook is constructive**
- **Add SG stocks to broaden equity portfolio**

Investment highlights

Accelerated mode of "this too shall pass…"

Having been a market watcher for several decades from Black Monday to Asian Financial Crisis (AFC) and then to the crippling Global Financial Crisis (GFC), the chain of events this year is unusual on so many fronts. When the pandemic started, we went out with a report sharing that "This too shall pass…" as global markets have always been resilient based on historical trends, past major economic crises and major sharp market sell-downs. Equities have in general, always managed to recover from sharp losses in the past and have been one of the better performing long-term asset classes. As the pandemic deteriorated, the temporal sell-down, and the subsequent sharp pace of recovery took us by surprise. This short and sharp recovery led us to quickly move into technology stocks in 2Q20 to capitalise on the working from home (WFH) theme. However, by the end of 3Q, and with the sharp price appreciation for most of the high-growth technology stocks, we advocated adding some Singapore defensive stocks to ensure a broader and more diversified portfolio. This proved to be a satisfactory strategy as rotation into value stocks commenced, fuelled by hopes of vaccines, re-opening of global economies, and then uncertainties over the US Presidential election and high valuations for technology stocks.

Exhibit 1: Preferred stock picks

Bloomberg Ticker	Company	Last Done ($)	YTD (%)	Fair Value ($)	Current upside	Indicated Div Yield (%)	PER FY1 (x)	Hist. P/B (x)	Latest Report Date
AREIT SP	**Ascendas REIT**	2.98	0.4%	3.92	31.5%	4.7	20.4	1.4	10-Nov-20
ART SP	**Ascott Residence Trust**	1.11	-16.5%	1.20	8.1%	1.9	58.4	1.1	16-Nov-20
CICT SP	**CapitaLand Integrated Comm. Trust**	2.18	-12.6%	2.38	9.2%	5.4	39.1	1.1	23-Oct-20
CAPL SP	**CapitaLand Ltd**	3.29	-12.8%	3.75	14.0%	3.7	20.1	0.7	12-Nov-20
FCT SP	**Frasers Centrepoint Trust**	2.46	-12.2%	2.75	11.8%	4.4	18.8	1.1	11-Nov-20
FLT SP	**Frasers Logistics & Comm**	1.45	21.0%	1.59	9.7%	4.8	19.7	1.3	17-Nov-20
KDCREIT SP	**Keppel DC REIT**	2.75	31.7%	3.41	24.0%	2.7	27.7	2.3	21-Oct-20
MUST SP	**Manulife US REIT (USD)**	0.75	-27.5%	0.84	12.0%	7.9	17.2	1.0	06-Nov-20
MINT SP	**Mapletree Industrial Trust**	2.81	8.8%	3.51	24.9%	4.4	23.2	1.7	28-Oct-20
MAGIC SP	**Mapletree North Asia Com Trust**	0.99	-15.1%	1.04	5.6%	7.6	19.3	0.7	30-Oct-20
NETLINK SP	**NetLink NBN Trust**	0.96	2.1%	1.10	14.6%	5.2	42.0	1.3	09-Nov-20
SSG SP	**Sheng Siong Group**	1.55	24.2%	1.85	19.4%	3.4	17.7	6.0	03-Aug-20
ST SP	**Singapore Telecommunications**	2.37	-30.6%	2.85	20.3%	4.5	18.9	1.4	13-Nov-20
THBEV SP	**Thai Beverage**	0.75	-15.7%	0.89	18.7%	2.7	15.9	3.2	07-Dec-20
VMS SP	**Venture Corp**	19.52	19.8%	22.30	14.2%	3.9	18.5	2.2	11-Nov-20
WIL SP	**Wilmar International**	4.28	3.9%	5.40	26.2%	3.2	15.3	1.2	03-Nov-20

Source: Internal estimates, Bloomberg

Recovery is uneven and may be delayed…

While our quarter by quarter market strategy reports in 2020 were able to effectively match market actions, it was also with an acute awareness that the recovery is going to be largely uneven across different regions and markets. With the resurgence of cases in Europe, US and Japan, there is also the heightened risk that the recovery may be delayed despite optimism over the impending deployment of vaccines. That clarity meant that sectors which were not positioned for the digital economy will have to suffer longer and will also need a longer period to heal, recover and grow and along the way, some companies will no longer be viable due to a lack of funding or cash flow issues. Companies which were able to play into the digitalisation of economies will continue to benefit and look set to continue to grow in the coming years.

Exhibit 2: Global economy poised to recover in 2021

GDP Growth	2018	2019	2020F	2021F	2022F
World	3.6	2.9	-3.8	5.2	3.7
G10	2.2	1.7	-5.3	4.1	3.2
Eurozone	1.9	1.2	-7.4	4.6	3.7
Asia ex-Japan	4.9	4.3	0.8	5.5	5.6
US	2.9	2.3	-3.5	3.9	3.1
China	6.7	6.1	2.0	8.2	5.5
Japan	0.3	0.7	-5.3	2.8	1.9
Korea	2.7	2.0	-1.1	3.2	2.7
Taiwan	2.8	2.7	2.0	3.6	2.5
Hong Kong	2.9	-1.2	-6.0	4.1	2.7
Singapore	3.5	0.7	-6.0	5.5	3.3
India	7.0	6.1	4.2	-8.8	9.1

Indonesia	5.2	5.0	-2.0	5.1	5.1
Malaysia	4.7	4.3	-5.8	6.8	4.8
Australia	2.8	1.8	-3.5	3.2	3.4

Source: Bloomberg

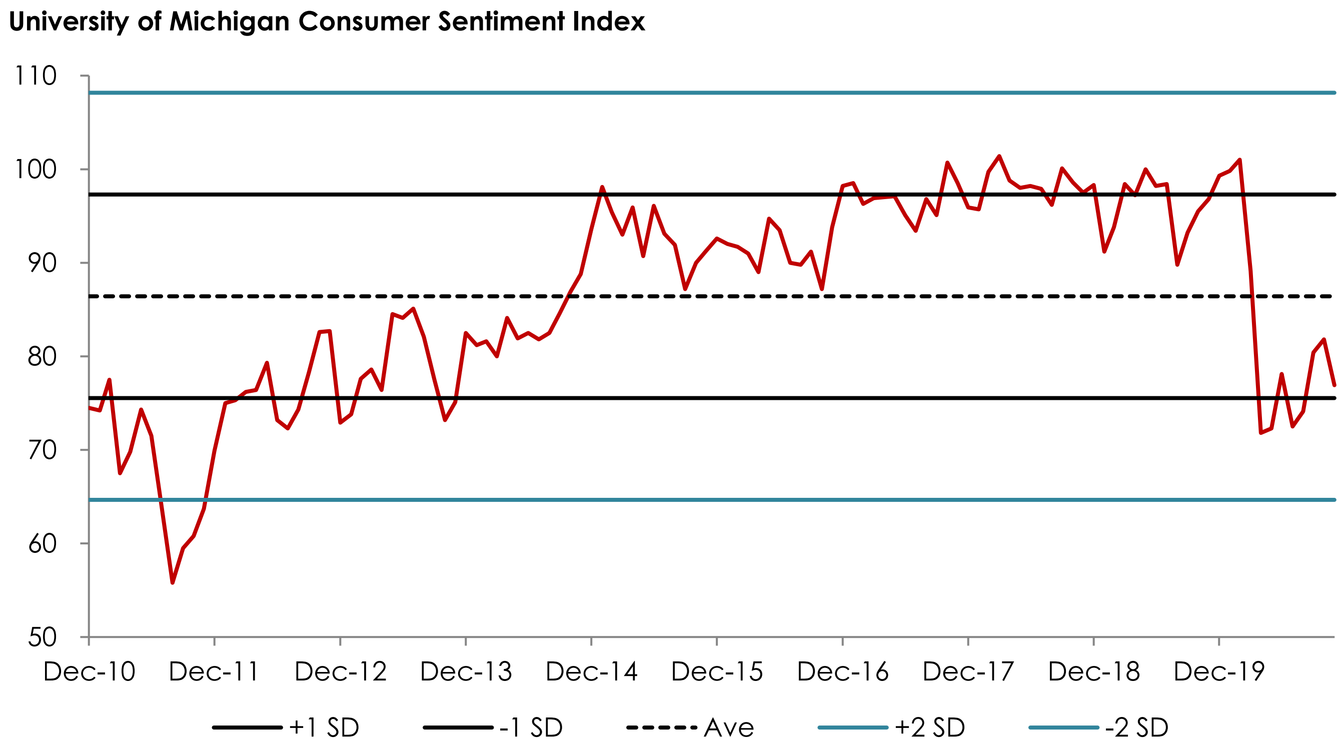
Near term volatility, but long-term market outlook is constructive

The recent surge in the spread of the coronavirus, especially in Europe, US and even in Japan, could derail economy recovery, despite recent optimism on vaccines. We expect this to result in near term market volatility as some economies re-impose restrictions to control the spread of the virus. This cautiousness was also seen in weak US and Europe Consumer Confidence indices.

Beyond the current situation, investors are likely to look at the gradual economic growth recovery as vaccines deployment takes place in 2021, starting with the developed economies. With rates widely expected to stay low for a longer period of time, this will support risk assets and equities.

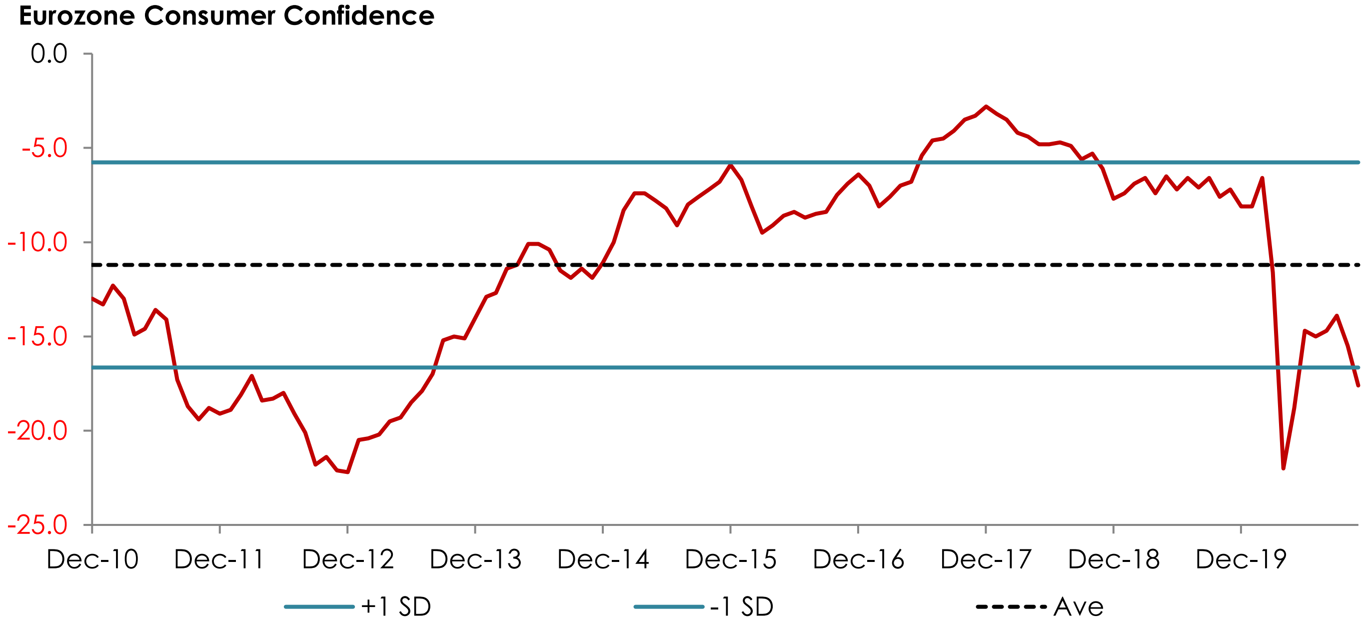
China, which is the first major economy to emerge from the pandemic, has continued to deliver encouraging economic data, and this could help to support and lift the rest of the region. During the recent 5-year plan, China also unveiled its ambition to become a technological powerhouse and to develop its self-reliance in technology. Its "dual circulation" strategy aims to achieve sustainable growth and develop a robust domestic economy. This is especially critical in view of the ongoing US-China tensions.

Exhibit 3: US Consumer Sentiment Index remains lacklustre



Source: Bloomberg

Exhibit 4: Eurozone Consumer Confidence is still down



Source: Bloomberg

US-China tensions to remain in focus

Recently, President Trump issued an executive order banning US persons from investing in selected Chinese companies deemed to have ties with the Chinese military, as well as the release of draft anti-trust guidelines against monopolistic practices in the Chinese internet industry. Together with closer scrutiny and regulations on big-tech companies in both US and China, the operating environment for these high growth firms will become increasingly tougher.

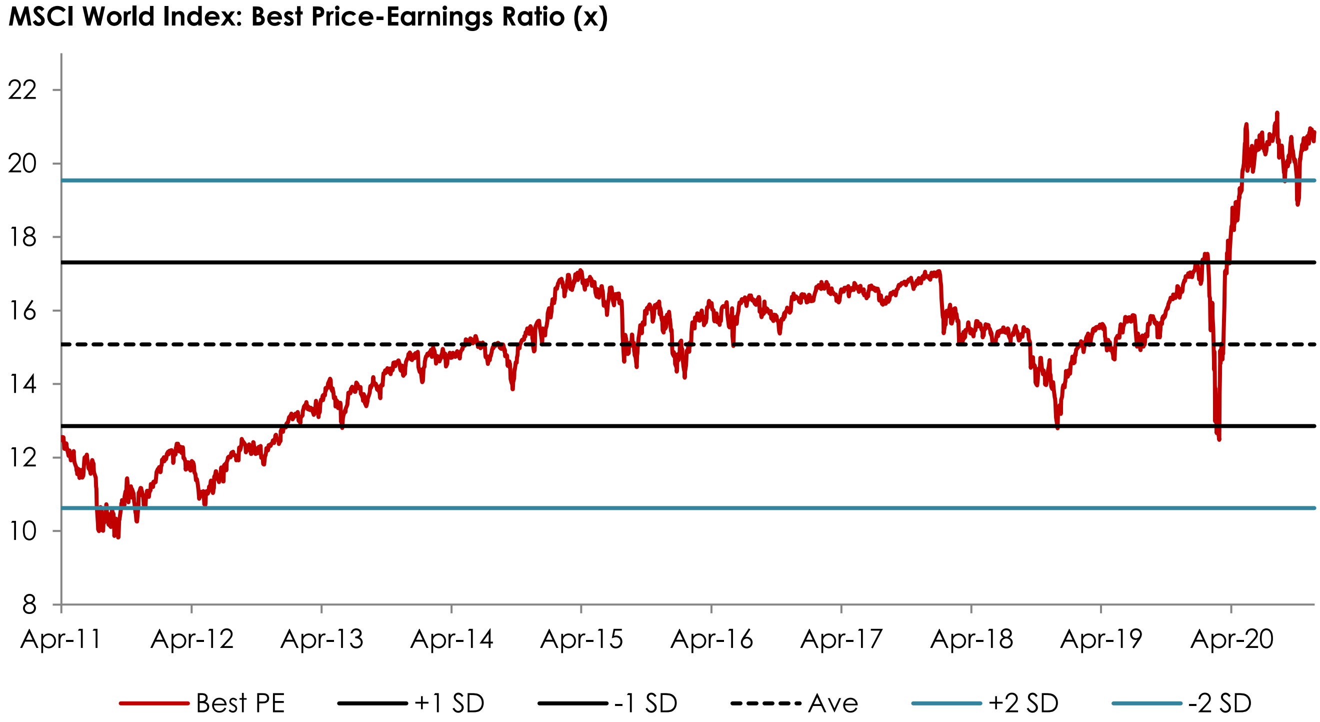
Get the party started!

First, the positive news. Favourable vaccine news has lifted optimism in the market and together with a low interest rate environment, equities are likely to remain in focus. However, with the strong turnaround in share price performances, from losses to gains for the year in most markets, valuations are no longer cheap.

Exhibit 5: US Federal Funds Effective Rate

Source: Bloomberg

Exhibit 6: MSCI World Index shows valuations are no longer cheap



Source: Bloomberg

Exhibit 7: MSCI World Index Price-Book Ratio

Source: Bloomberg

Will skeptics renew their affection for beaten up Singapore stocks?

Will the underperformers enjoy a comeback the way growth stocks did so quickly in 2020? Optimism over vaccine deployment is likely to drive cyclical stocks higher in the months ahead. Singapore's benchmark

Straits Times Index (STI) is cyclical-heavy and could see a re-rating to narrow the gap against the more growth-heavy indices in the region.

In mid-December, the Singapore government announced phase 3 opening on 28 Dec 2020. This will see the relaxation of current restrictions, allowing for social gathering in groups of up to eight people. This is an increase from the previous limit of 5 people. Together with this news, Prime Minister Lee also announced that the government has set aside more than S$1b for Covid-19 vaccines. Vaccinations will be made free for all Singaporeans and long-term residents.

While the number of Covid-19 cases remain high in Europe and the US, and most of Singapore's existing restrictions remain, the latest announcements contained in the phase 3 opening are positive and point to a gradual return to normalcy for the Singapore economy. This augurs well for several segments of the Singapore economy, in particular, sectors which were severely hit by a lack of tourists.

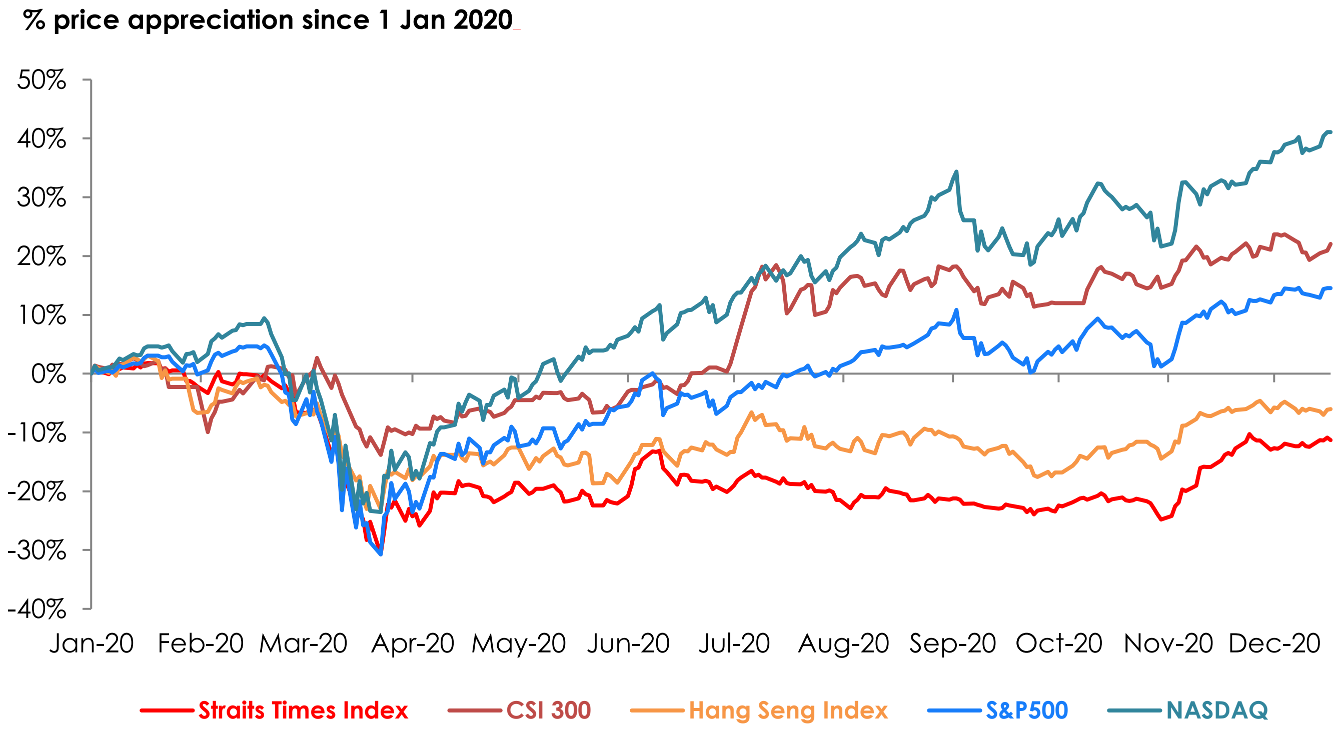
REITs remain an OVERWEIGHT

The Singapore REIT sector is like a tale of two cities. This year's performance is particularly stark as REITs with a growth angle largely outperformed the REITs focusing on tourism and retail. Our REIT analyst has aptly coined the terms Recovery Basket and Resilient Basket. The former is a basket of REITs which are likely to benefit from the pick-up in economic activities and recovery, after languishing since the start of the pandemic. The latter is a basket of REITs which have performed well so far, but these REITs have come under some recent selling pressure as rotation into cyclical and value stocks saw profit taking on stocks which have outperformed.

We have an OVERWEIGHT rating on the S-REITs sector. Our view is that the Recovery S-REITs basket will outperform in the near-term. In this basket, we have selected **CapitaLand Integrated Commercial Trust (CICT SP) [FV: S$2.38], Frasers Centrepoint Trust (FCT SP) [FV: S$2.75], Mapletree North Asia Commercial Trust (MAGIC SP) [FV: S$1.04] and Ascott Residence Trust [FV: S$1.20]**.

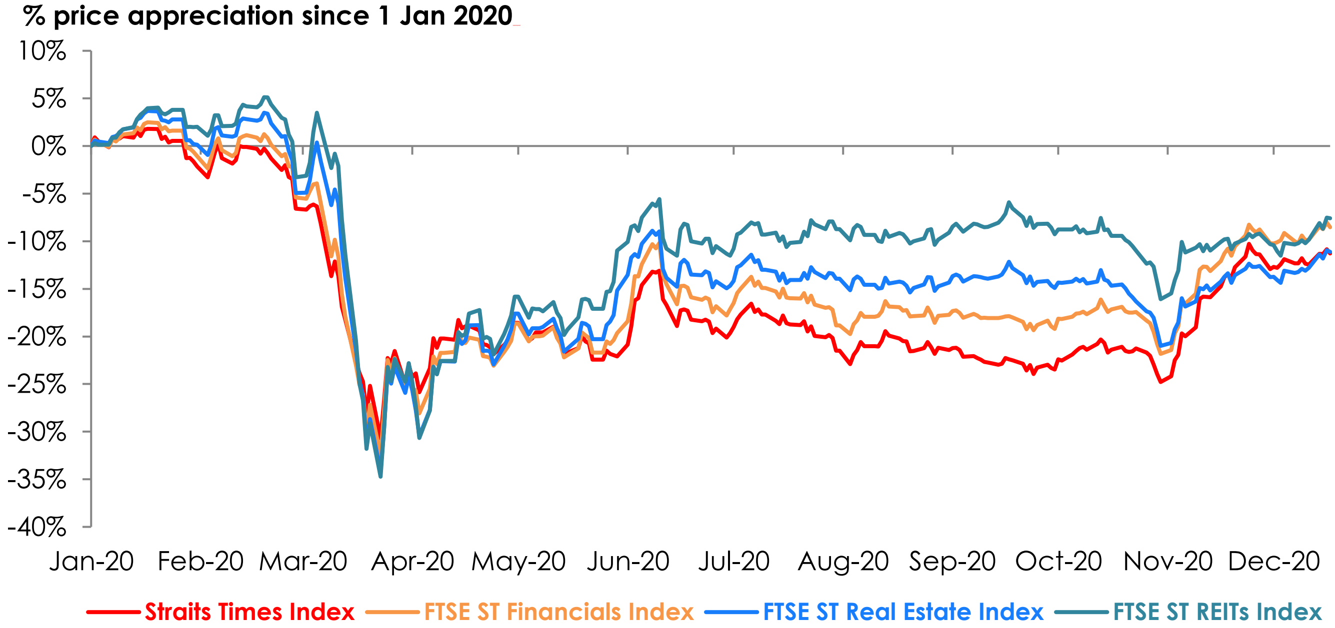
For the Resilient basket, this comprised of **Ascendas REIT (AREIT SP) [FV: S$3.92], Keppel DC REIT (KDCREIT SP) [FV: S$3.41] Frasers Logistics & Commercial Trust (FLT SP) [FV: S$1.59], Mapletree Industrial Trust (MINT SP) [FV: S$3.51] and Manulife US REIT (MUST SP) [FV: US$0.84]**.

Exhibit 8: Cyclical heavy STI is still down YTD; gap is likely to narrow



Source: Bloomberg

Exhibit 9: Real Estate and REITs outperformed STI



Source: Bloomberg

As the Singapore market has a higher concentration of value and cyclical stocks, its performance has trailed the growth markets in this region. Growth sectors, especially technology and bio-tech, have enjoyed a strong performance in 2020. However, we are expecting the environment to become more challenging with tighter scrutiny and regulations especially for big technology companies. Singapore stocks are good additions to provide for a more diversified and broader equity portfolio.

While we have selected several real estate and REITs, largely due to relatively higher potential upsides and more attractive valuations, banking stocks were not included as share prices have recovered from March 2020 lows. However, we would turn buyers on dips for the banking sector. Risks to our investment views will come mainly from Covid-related developments, such as longer than expected lockdowns and delays in vaccine deployment.

While we continue to like selective growth stocks, including several US listed technology stocks, we believe that Singapore's cyclical-heavy stocks are well positioned to benefit from the recovery theme and also to narrow the gap between growth and value stocks in the months ahead as economic activities resume gradually. Our preferred picks in Singapore are **Ascendas REIT, Ascott Residence Trust, CapitaLand Integrated Commercial Trust, CapitaLand Ltd, Frasers Centrepoint Trust, Frasers Logistics & Commercial, Keppel DC REIT, Manulife US REIT (USD), Mapletree Industrial Trust, Mapletree North Asia Commercial Trust, NetLink NBN Trust, Sheng Siong Group, Singapore Telecommunications, Thai Beverage, Venture Corp and Wilmar International.**

Exhibit 10: Singapore Stock Picks

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Source: Internal estimates, Bloomberg

ANALYST DECLARATION:

For analysts' shareholding disclosure on individual companies, please refer to the latest reports of these companies.

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