

# Strategy Flash Note

Singapore  
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## Sector ratings

OVERWEIGHT	NEUTRAL	UNDERWEIGHT
Capital Goods	Commodities	Transport
Financials	Consumer/ Healthcare	Telcos
Gaming	REITs	
Manufacturing		
Property		

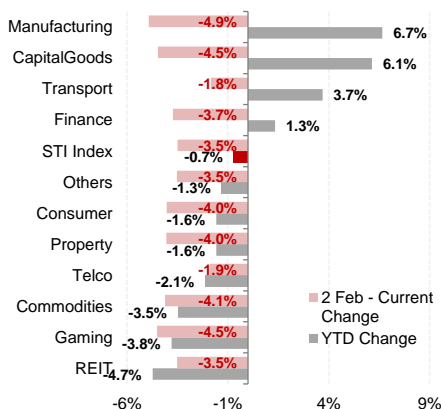
## Most/Least preferred stocks

Sector	Most preferred	Least preferred
Financial	DBS	UOB
Property	City Dev, UOL	
REITs	CDLHT, MINT, CCT	
Telcos	ST	M1, Starhub
Transport	SIA	SATS
Capital Goods	KEP, SMM	EZI, CSE
Commodities	Wilmar	GGR
Gaming	GENS	
Consumer/ Healthcare	HMI, Sheng Shiong	Q&M
Manufacturing	AEM, Sunningdale, Venture mm2, Yongnam, China SunSine, Singpost	
Others		

## FSSTI valuations

STI	CY16	CY17	CY18	CY19	CY20
Core P/E (x)	13.7x	15.6x	14.4x	13.4x	14.3x
FD Core P/E (x)	13.8x	15.7x	14.5x	13.5x	14.3x
Core EPS growth (%)	-8.1%	3.7%	11.2%	7.6%	10.6%
Core Net Profit Growth (%)	-8.8%	16.0%	13.6%	7.6%	10.6%
P/BV (x)	1.1x	1.3x	1.3x	1.2x	1.6x
Dividend yield (%)	3.8%	3.2%	3.3%	3.4%	5.0%
EV/EBITDA (x)	10.8x	12.6x	11.9x	11.4x	12.2x
P/FCF (x, equity)	16.6x	20.9x	15.4x	10.8x	14.6x
P/FCF (x, firm)	16.1x	20.6x	22.2x	13.1x	14.4x
Net gearing (%)	16.6%	17.1%	17.1%	16.4%	36.5%
ROE (% recurring)	8.0%	8.7%	9.1%	9.3%	11.1%
FSSTI level	2,881	3,403	3,483	3,483	3,483
CIMB/consensus (x)			0.99	0.99	0.98

## Sector recent sell-down



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# Singapore Strategy

## Prepare with a shopping list

- In preparation of a market bounce-back, we list five 'must-own' stocks backed by valuations and fundamentals: KEP, VMS, STE, GENS and AEM.
- Our Alpha list: we remove Memtech given its YTD outperformance, and add STE and China SunSine; others remain: UOL, SMM, mm2, Yongnam and Sunningdale.
- Our FSSTI target of 3,600 is intact.

## Sighs of relief on correction

- Fears of US Fed Fund rate hikes and inflations, coupled with the Dow's plunge, snowballed into a falling FSSTI. Sectors that have fallen the most in the past two days are capital goods, gaming (-4.5%) and tech/manufacturing (-4.9%) vs. FSSTI's -3.5%.
- Our bottom-up FSSTI target of 3,600 remains unchanged for now, with expectations 8% EPS growth for 2018F. Our technical chartist indicate that the near-term support for FSSTI may hover in the range of 3,370 and 3,470.
- We expect to see more earnings upgrades ahead in the non-REIT earnings season, potentially led by banks (on the back of lower credit costs, stronger loan growth and more aggressive NIM expansion), tech/manufacturing (steady volume increase), capital goods (higher order wins) and consumer/gaming (stronger topline growth).

## Shopping list in preparation for a bounceback

- No one knows how long the correction will last but we see the opportunity to prepare a shopping list of 'must-own' stocks backed by fundamentals. Our top-five picks are:-
- Keppel Corp – buy at S\$7.95.** S\$7.95 would imply valuation of: 1) S\$3.82 for KEP's property arm, at c.35% discount of RNAV, in line with current Singapore developer's valuations; and 2) S\$1.02 for its O&M arm, at 1.2x FY18F P/BV, close to -1.5 s.d of its 10-year average. We see KEP backed by multiple catalysts e.g. 1) sale of deferred rigs to unlock cash, 2) O&M orders, 3) restarting the stopped-work semisubmersible for Petrobras, 3) redevelopment plans for Singapore, and 4) land sale by Tianjin Eco City.
- Venture Corp – buy at S\$21.77** or 15.2x CY19F P/E (10-year average P/E). 2H is seasonally stronger for the company and we believe its business momentum is still strong with no disruption seen across its end-customers. Its well-diversified customer base and product portfolio makes it resilient. Catalysts could come from stronger-than-expected revenue and margins.
- AEM – buy at S\$4.70** or c.8x CY19F P/E. Our target price of S\$6.62 is based on 10x CY19F P/E (18% discount to sector average of 12x). We believe AEM is on course to deliver 35% yoy earnings in FY18F, riding the firm sales forecasts from its major customer. Catalysts could come from stronger-than-expected earnings.
- Genting Singapore – buy at S\$1.20** or c.9x CY19F EV/EBITDA, close to -1 s.d. of its 6-year average. We believe the careful credit loosening in its VIP business could help to lift overall gross gaming revenue (GGR).
- STE – buy at S\$3.15** or 16x CY19F P/E, below its 5-year average of 20x. Assuming its peer SIA Engineering's recent earnings beat is an indication of returning engine MRO trend, we see STE benefiting due to its exposure to the CFM engines for narrow body aircraft. STE is relatively cheaper vs. SIE SP (>20x CY19F P/E). Catalyst could come from stronger-than-expected earnings from aerospace and marine.

Figure 1: Alpha picks and entry levels

	Market Cap (US\$m)	Price (local curr)	Target Price (t)	Upside/ (Downside)	BUY level	Current Valuations			Implied Valuations method	YTD % Perf	Recent Selldown %	
						Core P/E (x) CY19F	P/BV (x) CY17F	EV/EBITDA (x) CY17F				
<b>Alpha picks (Large-cap)</b>												
Genting Singapore	GENS SP	11,603	1.27	1.45	14.0%	1.20	20.0	2.1	11.2	9x CY19 EV/EBITDA	-3.8%	-4.5%
Keppel Corporation	KEP SP	11,276	8.19	10.00	22.1%	7.95	15.9	1.4	21.9	Implied O&M at 1.2x P/BV in SOTP, property at 35% disc to RNAV	8.8%	-6.0%
Sembcorp Marine	SMM SP	4,294	2.71	2.49	-8.3%	2.00	42.2	2.2	27.1	1.6x CY18 P/BV, below LT avg of 2.5x	44.9%	-2.9%
ST Engineering	STE SP	7,638	3.23	3.85	19.2%	3.15	15.9	4.5	11.7	15x CY19 P/E, below 5-year avg of 20x	-1.2%	-3.6%
UOL Group	UOL SP	5,566	8.71	9.62	10.4%	8.20	17.8	0.8	34.3	30% disc to RNAV, (LT avg). It traded up to +1s.d in early Jan-18	-2.5%	-3.7%
Venture Corporation	VMS SP	4,874	22.48	24.74	10.1%	21.74	16.3	3.1	14.8	15.2x CY19 P/E (10yr avg P/E)	4.9%	-4.6%
<b>Alpha picks (Small-cap)</b>												
AEM Holdings Ltd	AEM SP	266	5.36	6.62	23.5%	4.70	8.6	7.0	9.1	8x CY19 P/E	62.4%	-2.5%
China SunSine Chemical	CSSC SP	422	1.13	1.50	32.7%	0.95	7.5	1.6	4.3	6.2x CY19 P/E (LT avg)	22.8%	-2.6%
mm2 Asia	MM2 SP	428	0.49	0.76	56.4%	0.49	14.7	3.7	9.8	16x CY19 P/E	-8.5%	-4.0%
Sunningdale Tech Ltd	SUNN SP	267	1.86	2.79	56.1%	1.86	8.3	1.0	4.2	0.94x CY17 P/BV	-6.5%	-6.5%
Yongnam Holdings	YNH SP	127	0.32	0.53	65.9%	0.30	6.5	0.6	17.3	0.5x CY18 P/BV (-1 sd to LT avg)	1.6%	-8.6%

SOURCES: CIMB, COMPANY REPORTS

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#### Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association (“IOD”) regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CIMBT does not confirm nor certify the accuracy of such survey result.

<b>Score Range:</b>	90 - 100	80 – 89	70 - 79	Below 70 or	No Survey Result
<b>Description:</b>	Excellent	Very Good	Good	N/A	

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Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2017		
1235 companies under coverage for quarter ended on 31 December 2017		
	Rating Distribution (%)	Investment Banking clients (%)
Add	58.5%	6.4%
Hold	31.7%	2.6%
Reduce	9.0%	0.7%

#### Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2017, Anti-Corruption 2017

**AAV** – Very Good, n/a, **ADVANC** – Excellent, Certified, **AEONTS** – Good, n/a, **AMATA** – Very Good, n/a, **ANAN** – Excellent, n/a, **AOT** – Excellent, Declared, **AP** – Excellent, Declared, **ASK** – Very Good, Declared, **ASP** – Very Good, Certified, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Declared, **BCP** - Excellent, Certified, **BCPG** – Very Good, n/a, **BEM** – Very Good, n/a, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – not available, n/a, **BH** - Good, n/a, **BJC** – Very Good, Declared, **BJCHI** – Very Good, Declared, **BLA** – Very Good, Certified, **BPP** – Good, n/a, **BR** - Good, Declared, **BTS** - Excellent, Certified, **CBG** – Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Very Good, Declared, **CPALL** – not available, Declared, **CPF** – Excellent, Declared, **CPN** - Excellent, Certified, **DELTA** - Excellent, n/a, **DEMCO** – Excellent, Certified, **DIF** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Very Good, n/a, **ECL** – Very Good, Certified, **EGCO** - Excellent, Certified, **EPG** – Very Good, n/a, **GFPT** - Excellent, Declared, **GGC** – not available, Declared, **GLOBAL** – Very Good, Declared, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Declared, **GRAMMY** - Excellent, n/a, **GUNKUL** – Excellent, Declared, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **ICHI** – Excellent, n/a, **III** – not available, n/a, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JAS** – not available, Declared, **JASIF** – not available, n/a, **JUBILE** – Good, Declared, **KAMART** – not available, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KGI** – Very Good, Certified, **KKP** – Excellent, Certified, **KSL** – Very Good, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Very Good, n/a, **LPN** – Excellent, Certified, **M** – Very Good, n/a, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Very Good, Declared, **MALEE** – Very Good, n/a, **MBKET** – Very Good, Certified, **MC** – Very Good, Declared, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTLS** – Very Good, Declared, **NYT** – Excellent, n/a, **OISHI** – Very Good, n/a, **PLANB** – Excellent, Declared, **PLAT** – Very Good, Certified, **PSH** – Excellent, Certified, **PSL** - Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, Certified, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Very Good, n/a, **SAMART** - Excellent, n/a, **SAPPE** - Good, n/a, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Declared, **SCB** - Excellent, Certified, **SCBLIF** – not available, n/a, **SCC** – Excellent, Certified, **SCN** – Very Good, Declared, **SCCC** - Excellent, Declared, **SIM** - Excellent, n/a, **SIRI** – Very Good, Declared, **SPA** - Good, n/a, **SPALI** - Excellent, n/a, **SPRC** – Excellent, Declared, **STA** – Very Good, Declared, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **TASCO** – Very Good, n/a, **TCAP** – Excellent, Certified, **THAI** – Very Good, n/a, **THANI** – Very Good, Certified, **THCOM** – Excellent, Certified, **THRE** – Very Good, Certified, **THREL** – Excellent, Certified, **TICON** – Very Good, Declared, **TIPCO** – Very Good, Certified, **TISCO** - Excellent, Certified, **TK** – Very Good, n/a, **TKN** – Very Good, Declared, **TMB** - Excellent, Certified, **TNR** – Good, n/a, **TOP** - Excellent, Certified, **TPCH** – Good, n/a, **TPIPP** – not available, n/a, **TRUE** – Excellent, Declared, **TTW** – Very Good, n/a, **TU** – Excellent, Declared, **TVO** – Excellent, Declared, **UNIQ** – not available, Declared, **VGI** – Excellent, Declared, **WHA** – not available, Declared, **WHART** – not available, n/a, **WORK** – not available, n/a.

**Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of October 28, 2016) are categorized into:**

- Companies that have declared their intention to join CAC, and
- Companies certified by CAC

### CIMB Recommendation Framework

#### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

#### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

#### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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