Daiwa Capital Markets

Singapore Strategy

Navigating choppy markets

- We are trimming our FSSTI target to 3,155 (from 3,265); we downgrade the REITs to Neutral and go Overweight the developers
- Out-of-index plays could be the key source of alpha generation; we identify 3 themes: M&A, secular demand stories, and the disruptors
- Overweight: banks and developers; Underweight: oil & gas and the consumer goods sectors

Ramakrishna Maruvada
(65) 6499 6543
ramakrishna.maruvada@sg.daiwacm.com

Shane Goh
(65) 6499 6546
shane.goh@sg.daiwacm.com

Economy/ Strategy/ Quantitative

Daiwa Capital Markets

Singapore Strategy

Navigating choppy markets

- We are trimming our FSSTI target to 3,155 (from 3,265); we downgrade the REITs to Neutral and go Overweight the developers
- Out-of-index plays could be the key source of alpha generation; we identify 3 themes: M&A, secular demand stories, and the disruptors
- Overweight: banks and developers; Underweight: oil & gas and the consumer goods sectors

Ramakrishna Maruvada
(65) 6499 6543
ramakrishna.maruvada@sg.daiwacm.com

Shane Goh
(65) 6499 6546
shane.goh@sg.daiwacm.com

Summary: There is mounting evidence to suggest that corporate profits are weakening in Singapore, though the impact across sectors appears uneven. We have reviewed the earnings reports of 373 Singapore-listed firms and found a rising proportion of unprofitable companies (25% versus 17% a year ago). However, our bottom-up forecasts now suggest more subdued market earnings growth going forward (2016/17: 3.0%/7.3% YoY vs. 5.9%/7.5% before). Accordingly, we are revising down our 2016 year-end index target to 3,155 (previously 3,265), implying 12% upside. We remain Overweight the banks as asset-quality concerns appear overblown, but downgrade the REITS (to Neutral) in favour of the developers (Overweight) given their superior relative performance YTD.

Given the limited upside that we see to the index, we think stock selections and out-of-index plays are the key to ensuring portfolio performance. We see 3 themes as relevant.

No.1 M&A: the prospects appear to be bright for several companies among the developers, REITS and offshore marine sector. Developers that offer high exposure to investment properties, industrial REITS and small-cap offshore & marine (O&M) names appear interesting, on our screens. And **Starhill Global REIT** and **Cambridge Industrial Trust** are potential value plays (full lists inside), in our view.

No.2 secular stories: demand for the healthcare and land-transport sectors in Singapore remains high, with **Raffles Medical** and **ComfortDelGro** still attractive, in our opinion. In addition, we think the government's automation focus and budget measures should stand **Sheng Siong** in good stead.

No.3 the disruptors: new entrants putting the telecoms sector at risk and the rise of fintech firms are 2 developments that investors should monitor carefully given their disruptive potential. We like **M1** as an event trade, and see only a slim possibility of a new player entering the telecoms market.

We are making 2 changes to our top index picks: 1) removing CapitaLand Mall Trust (YTD: +9.3%) in favour of CapitaLand (YTD: -9.9%) as we see better value in the property developers, and 2) replacing OCBC with UOB due to its relative outperformance (YTD: OCBC -0.9% UOB: -4.6%).

Our revised top index picks are: DBS, UOB, SingTel, ComfortDelGro, Hongkong Land, City Developments, CapitaLand. And we are expanding our selection of small-cap picks to include: Raffles Medical, Sheng Siong, Accordia Golf Trust, BreadTalk, M1, Starhill Global REIT, Cambridge Industrial Trust.

FSSTI sector weighting recommendations

Sectors	Weighting	Relative preferences
Banks	OW	DBS, UOB
Real estate	OW	Developers (Neutral → Overweight), REITs (Overweight →Neutral)
Telecoms	N	ST, M1
Consumer services	N	Land transport (CDG) over casinos
Industrial	N	MRO plays
Oil & Gas	UW	Keppel over SMM
Consumer goods	UW	

Source: Daiwa

Top picks

		2016E		
BBG code	Rating	PER (x)	PBR (x)	Div Yield
Index Picks				
DBS SP	Buy	8.5	0.9	4.5%
UOB SP	Buy	9.5	1.0	4.0%
ST SP	Hold	14.2	2.2	5.3%
CD SP	Buy	18.8	2.5	3.5%
HKL SP	Buy	15.9	0.5	3.4%
CIT SP	Buy	10.6	0.8	1.9%
CAPL SP	Buy	14.6	0.7	3.1%
Small caps				
RFMD SP	Outperform	30.5	3.9	1.3%
SSG SP	Outperform	18.9	4.9	4.8%
AGT SP	Buy	6.9	0.6	11.0%
BREAD SP	Outperform	17.1	2.0	1.5%
M1 SP	Buy	12.7	5.3	7.1%
SGREIT SP	Outperform	13.3	0.8	6.5%
CREIT SP	Outperform	12.4	0.8	8.2%

Source: Daiwa forecasts
Note: FY17E for SingTel/AGT as year-end in March; based on 6 April 2016 closing prices

See important disclosures, including any required research certifications, beginning on page 72

Economy/ Strategy/ Quantitative

Daiwa Capital Markets

Table of contents

Overview 4

Mergers and acquisitions 10

Secular demand stories 18

Disruptors 28

Daiwa's view: key sectors and stocks 34

Banks: no big deterioration in asset quality 40

Developers: finding respite overseas 43

S-REITs: opportunities becoming scarce 48

Telecoms: revenue growth pains 52

Singapore Offshore & Marine: major losses on provisions/impairments 57

Consumer and healthcare: cost management key 62

Land Transport Services: an evolving landscape 66

Valuations 69

Overview

Could the expansionary budget alter Singapore's economic outlook?

The Singapore Government recently unveiled a budget, under which it expects spending to rise by 7.3% YoY to SGD73.43bn. However, the government still expects the fiscal balance to show a surplus of 0.8% of GDP for FY16 (-1.2% GDP for FY15), due to one-off factors (vehicle-related revenue and Statutory Boards' contributions) and the inclusion of Temasek into the net investment return framework.

FY16 budget focus is on helping SMEs combat the cyclical downturn

The FY16 budget appears to have put more focus on helping the economy to combat the ongoing cyclical downturn, while also attempting to boost productivity and innovation over the medium term. In particular, there are several measures in this year's budget targeted at offering financial relief to SMEs, including a corporate income-tax rebate of up to 50% (from 30% currently) capped at SGD20,000, a deferment of the foreign worker levy increase in the marine sector, an SME working capital loan scheme, an SGD400m automation support package (up to a 70% risk share of government loans), and the expansion of the SME mezzanine growth fund to SGD150m (from SGD100m currently). Taken together, these measures should lower credit default risks slightly, while encouraging the banks to lend more to the SMEs.

In addition, industry transformation programme grants (SGD4.5bn) will be made available for businesses to scale up and automate their processes. This could primarily benefit medium-sized enterprises with regional ambitions. Further, the Finance Minister said that investments in education, healthcare, transportation and infrastructure (Changi Airport Terminal 5) will continue, while indicating that it was too early to unwind some of the property-cooling measures in place.

As the FY16 budget is expansionary, it should lend some support to GDP growth. However, as an export-driven economy, we still believe the one-legged G3 recovery, along with the slowdown in China, will be a larger drag, and hence maintain our 2016 GDP growth forecast of 1.6% YoY (2% YoY for 2015).

Daiwa's economic forecasts for Singapore

% YoY	*2013*	*2014*	*2015*	*2016E*	*2017E*
Real GDP	4.7	3.3	2.0	1.6	2.3
CPI inflation	2.4	1.0	(0.5)	0.6	1.8
Exports	0.4	(0.2)	(14.5)	3.2	2.8
Imports	(1.8)	(1.9)	(19.0)	3.9	3.0
Trade balance, (USDbn)	33.9	43.5	49.8	49.4	56.2
Current account balance, (% of GDP)	18.0	17.4	19.7	24.1	24.5
Fiscal balance, (% of GDP)	1.2	1.3	0.6	(0.5)	0.3
USD/SGD, end of period	1.27	1.33	1.42	1.58	1.59

Source: Daiwa forecasts

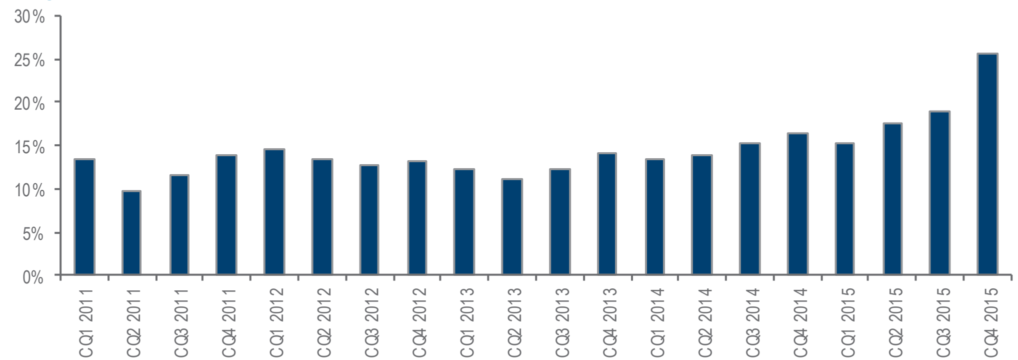
How is the downturn affecting corporates?

We have surveyed the quarterly financial reports of 373 stocks listed on the Singapore stock exchange (with market caps in excess of SGD50m) to understand how the economic slowdown is feeding through to corporate profits. Our key findings are as follows.

The proportion of unprofitable firms in 4Q15 rose to 25% of the companies analysed, up from 17% a year ago. The oil equipment and services and industrial-engineering sectors fared the worst.

Rising proportion of unprofitable firms in the Singapore market

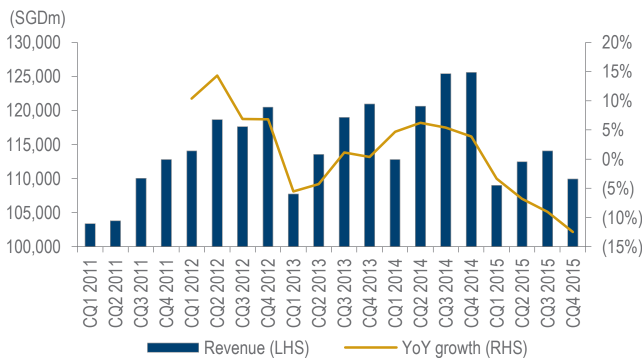
Singapore-listed stocks: % of unprofitable companies



Source: Bloomberg, Daiwa estimates
Note: Data based on 373 firms from CQ (calendar quarter)4-2014 to CQ4-2015; 268 companies for the previous period

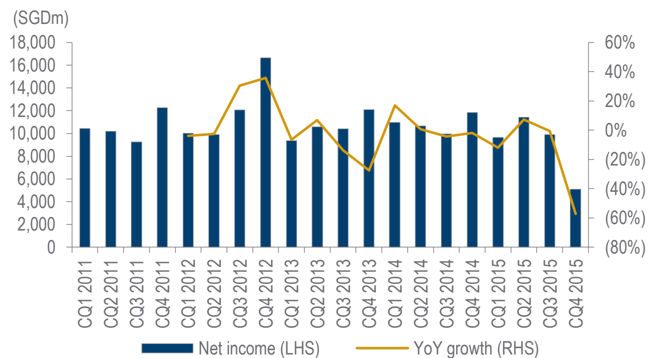
The cumulative profits within the universe of stocks surveyed fell by 55% YoY as the oil equipment and services sector fell into losses (4Q15: SGD0.4bn loss vs. SGD1.3bn profit), while the losses in the general industrials sector expanded by 9x (due to Noble Group). The food-producer sector also saw its profits fall by 49% YoY. Meanwhile, the banking sector was the bright spot, with its cumulative profit rising by 14% YoY.

Singapore-listed stocks: revenue trends



Source: Bloomberg, Daiwa estimates
Note: Data set based on 268 firms with records stretching from CQ1-2011 to CQ4-2015

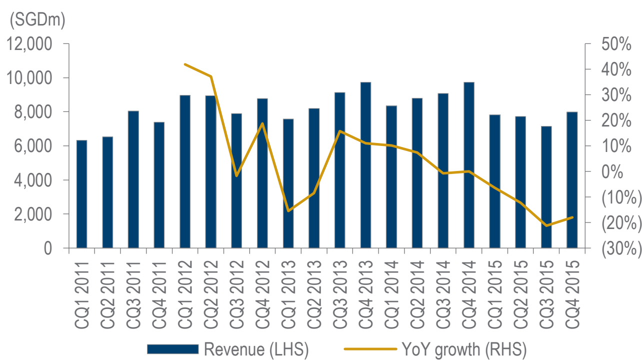
Singapore-listed stocks: net profit trends



Source: Bloomberg, Daiwa estimates
Note: Data set based on 268 firms with records stretching from CQ1-2011 to CQ4-2015

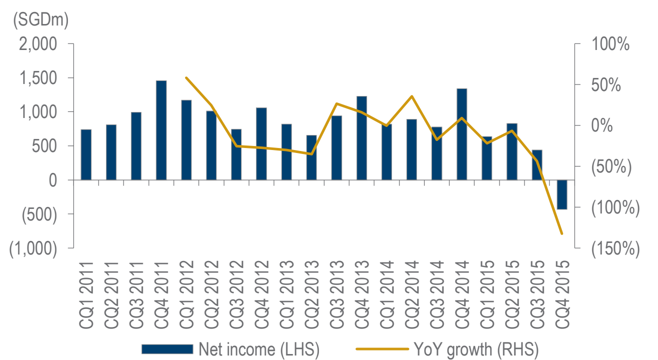
The profit appears to have been affected not only by asset impairments, but also by revenue weakness. In 4Q15, revenue fell by 13% YoY, driven by declines in the general industrials (-32% YoY) and the oil equipment and services sector (-21%). Meanwhile, banks (+9%), property developers (+19% YoY) and REITS (+10% YoY) did relatively well, with developers' revenue boosted by the completion of projects launched in the past.

Oil equipment, services & distribution companies: revenue



Source: Bloomberg, Daiwa estimates
Note: Data set based on 268 firms with records stretching from CQ1-2011 to CQ4-2015

Oil Equipment, Services & Distribution companies: net profit



Source: Bloomberg, Daiwa estimates
Note: Data set based on 268 firms with records stretching from CQ1-2011 to CQ4-2015

Clearly, the corporate earnings outlook has weakened over the past 6 months, with the oil and gas and industrial sectors facing the brunt of the economic slowdown. However, earnings from other sectors such as the banks, telecoms, REITS have held up fairly well.

Will we face a corporate earnings recession in 2016?

Our bottom-up forecasts suggest a muted earnings outlook for 2016, though not an outright earnings recession. We forecast adjusted market earnings to rise by 2.8% YoY for 2016 (previously 5.9%) and accelerate to 7.9% YoY (previously 7.5%) for 2017.

Adjusted earnings forecasts by sector

YoY	Index weighting	2015	2016E	2017E
Market (FSSTI)		**2.3%**	**3.0%**	**7.3%**
Banks	36.9%	4.5%	0.4%	6.9%
Real estate	19.4%	0.3%	5.3%	9.4%
Telecoms	13.0%	5.8%	4.3%	4.9%
Consumer services	12.0%	0.7%	27.0%	10.4%
Industrial	6.0%	-1.2%	-1.7%	2.0%
Oil & Gas	5.2%	-20.5%	-38.0%	1.0%
Consumer goods	7.5%	12.0%	0.8%	11.0%

Source: Daiwa forecasts, Bloomberg consensus, companies
Note: excluding the contribution from Noble Group

What is the upside to the index?

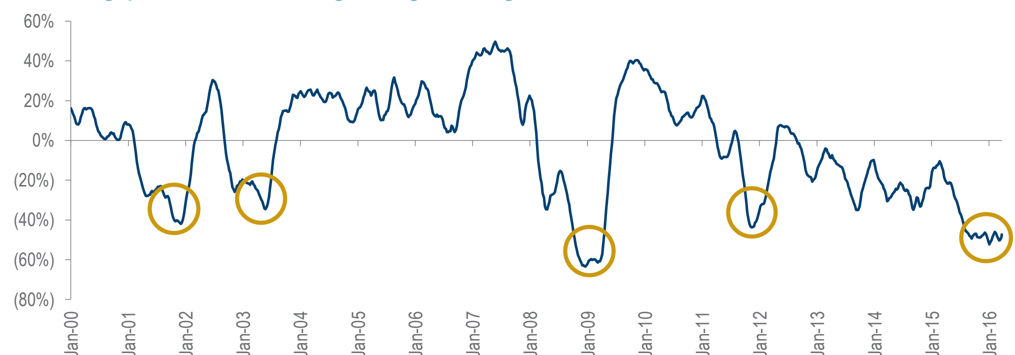
We had previously deemed 12.1x – the average for the FSSTI Index since the GFC – as an appropriate PER for the Singapore market.

However, in our judgement, the market could trade at a higher multiple as we believe analysts may have cut their earnings forecasts too much, perhaps influenced by negative headlines and the sell-down in the global equity markets during the January-February 2016 period, driven by sliding oil prices, which have since stabilised at a higher level. This could be especially so in the case of the banks, where the Bloomberg consensus expects a stagnant earnings profile for 2016 due to worries over asset quality.

Accordingly, in anticipation of a potential upswing in earnings, we deem 13.1x, the past-15-year average PER, as appropriate for the market, leading us to arrive at our end-2016 index target of 3,155 (previously 3,265, based on 12.1x 1-year forward earnings). We believe a higher PER is also justified as we think the earnings revisions have bottomed out. This can be judged from the IBES earnings revisions index (which measures a number of consensus upgrades in relation to downgrades), which has fallen to and stabilised at around -50%.

Consensus earnings revisions appear to have bottomed out

MSCI Singapore 3-month moving average earnings revisions index



Source: IBES, Daiwa Custom Products Group

While our top-down analysis, our preferred approach for setting index target, suggests 12% upside potential for the market, our bottom-up analysis of Daiwa's and the Bloomberg consensus' target prices for the FSSTI constituents suggests upside of 17% for the index in SGD terms.

How to outperform the market?

The volatile stock market performance in 1Q16 reflects investors' unease over of a range of issues – the Fed rate hikes, China economic slowdown and the impact of low oil price. We continue to expect volatility in the quarters ahead, as markets digest and calibrate the impact of these macro factors on corporate profits and credit risks.

Stock selection and out-of-index plays key to alpha generation

Ultimately, we expect incoming data to validate our broad thesis that the asset quality of the Singapore banks would hold up well, with non-performing loans seeing only a gradual rise as the economy slows. Thus, our basic investment strategy of overweighting banks remains unchanged, though we would pare down the magnitude of deviation from benchmark weights, as we expect a bumpy ride ahead. Meanwhile, we lower our rating on the REITS sector to Neutral, following its strong YTD outperformance and instead look to go overweight the property developers, which are trading at 17-51% discounts to their end-2015 NAVs. We remain underweight the oil and gas and consumer goods sectors and have Neutral weighting recommendations on the telecoms, property developers, consumer services and industrial sectors.

Given our expectations of an increase in market volatility and the limited upside to the index (12%), we believe careful stock selection and out-of-index plays could be key to portfolio outperformance for the rest of 2016.

Key investment themes that could help investors ride it out over the rest of the year are:

- **No.1 M&A:** look for companies in the property and offshore marine sectors that could restructure via M&A and emerge stronger through the cycle or those that are candidates for privatisation.

- **No.2 Secular stories:** invest in line with the government's priorities in health and transport.

- **No.3 the disruptors:** be wary of the disruptors, perceived or otherwise, in the telecoms and banks spaces.

Top picks: we are 1) removing CapitaLand Mall Trust following its YTD rally (+ 9.3%) and replacing it with CapitaLand (YTD -9.9%), which we think is trading at an attractive 27% discount to its end-2015 NAV, and 2) replacing OCBC with UOB following the former's relative outperformance (YTD: OCBC -0.9% UOB: - 4.6%). Meanwhile, we are: 1) adding Raffles Medical, M1, Starhill Global REIT (SGREIT) and Cambridge Industrial Trust (CREIT) to our out-of-index picks as we see them as attractive plays on the investment themes, ie, M&A, secular stories and disruptors – highlighted above.

Our revised top index picks are: DBS, UOB, SingTel, ComfortDelGro, Hongkong Land, City Developments and CapitaLand. We are adding expanding our out-of-index picks now to include: Raffles Medical, Sheng Siong, Accordia Golf Trust, BreadTalk, M1, Starhill Global REIT, Cambridge Industrial Trust.

Daiwa's recommended sector weightings: key changes

Sectors	Index weight	Daiwa's recommendation	Weighting	Preferences / Key trades
Banks	36.9%	37.9%	Overweight	Prefer DBS, followed by UOB
Real Estate	19.4%	20.4%	Overweight	Neutral REITs, Overweight developers (CIT, HKL, CAPL)
Telecoms	13.0%	13.0%	Neutral	Prefer SingTel, M1 over StarHub
Consumer services	12.0%	12.0%	Neutral	Prefer land transport (CD) over casino/retail
Industrial	6.0%	6.0%	Neutral	Prefer MRO plays over China shipbuilders
Oil & Gas	5.2%	4.2%	Underweight	Prefer Keppel over SMM
Consumer goods	7.5%	6.5%	Underweight	

Source: Daiwa

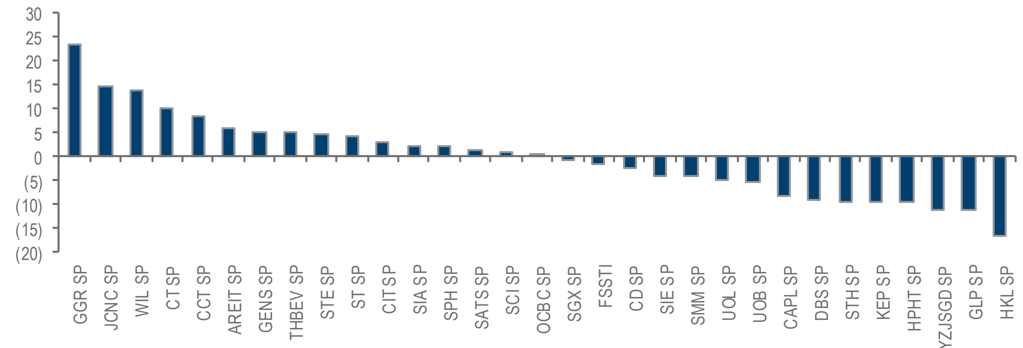
Where are the valuations?

Singapore market versus the region

Market PBR now 1SD below past-15-year mean PBR

The Singapore stock market lagged most of its ASEAN peers in 1Q16, mainly as investors sold off the Singapore banks stocks due to worries over their exposure to the oil and gas sectors and China. Apart from the REITS, many of the Singapore-listed stocks with dominant exposure to ASEAN countries, such as Golden Agri and Jardine Cycle & Carriage, performed well relative to those with exposure to Singapore or China.

FSSTI Singapore constituents: share price performances for 2016 YTD (%)

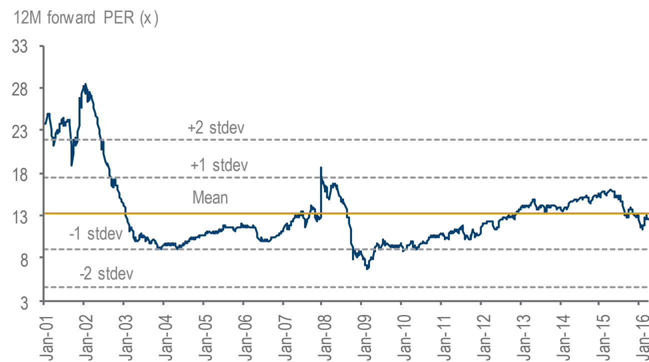


Source: Bloomberg, Daiwa estimates

Price-to-book valuations still at trough levels

Following the sharp rally in the markets since the middle of February 2016, the FSSTI is now trading at a PER of 12.8x and a PBR of 1.1x on 2016E figures, versus respective past-15-year means of 13.1x and 1.5x.

FSSTI: 12-month-forward PER bands



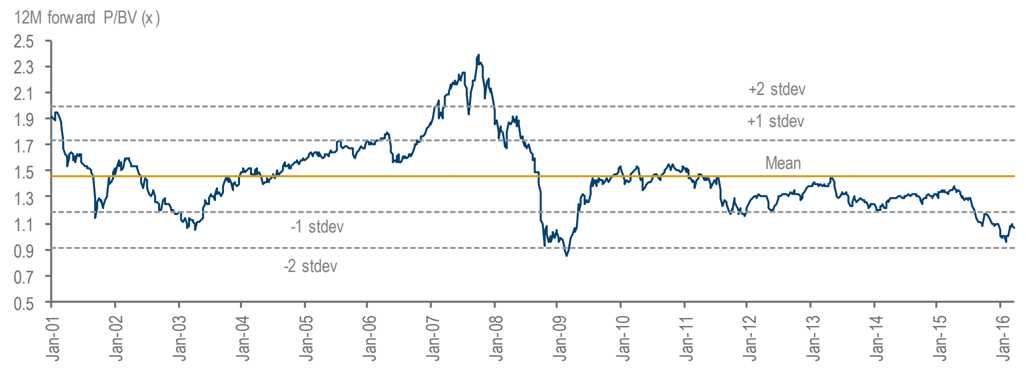
Source: Bloomberg
Note: FSSTI has been reconstituted from 2008

MSCI Singapore: 12-month-forward PER bands

Source: IBES, Factset, Daiwa Custom Products Group

While the index is at only a slight discount (2%) on a PER basis, the Singapore market is trading at 1SD below its past-15-year mean on a price-to-book ratio. The 12-month forward dividend yield, at 4.0%, also appears attractive to us, especially compared to the spreads for the 10-year bond yields or fixed-deposit rates.

FSSTI: forward PBR bands



Source: Bloomberg, Daiwa estimates

Mergers and acquisitions

Over the past 6 months, there has been notable M&A activity involving several of the Singapore-listed firms. These include the: 1) purchase of Neptune Orient Lines (NOL) by France's CMA CGM group to consolidate part of the fragmented shipping sector, 2) the acquisition of Tiger Airways by its major shareholder Singapore Airlines, 3) the privatisation offer of OSIM by its major shareholder Ron Sim, and 4) an offer to purchase Tat Hong Holdings, the details for which are not yet disclosed.

Singapore-listed firms: M&A activities from 3Q15-1Q16

Target	Acquirer	Market Cap	Date	Holding period up to announcement date + 1	
		(SGDm)	announced	30 days	90 days
Neptune Orient Lines	CMA CGM SA	3,293	7-Dec-15	24.5%	41.9%
Biosensors Intl Group	CB Medical Holdings Ltd	1,407	4-Nov-15	19.1%	12.5%
Tiger Airways Holdings	Singapore Airlines Ltd	1,150	6-Nov-15	32.3%	39.0%
OSIM Intl	Vision Three Pte Ltd	1,016	7-Mar-16	47.1%	29.7%
Xinren Aluminum Holdings	Merit Stand Inc	782	25-Feb-16	57.9%	44.6%
Interplex Holdings	Baring Private Equity Asia Ltd	460	23-Dec-15	1.3%	21.5%
GMG Global	Halcyon Agri Corp Ltd	448	29-Mar-16	60.0%	90.5%
Halcyon Agri Corporation	Sinochem International Corp	441	28-Mar-16	7.3%	10.5%
Tat Hong Holdings	-	370	15-Mar-16	50.6%	30.2%
HTL Intl Holdings	Guangdong Yihua Timber Industry Co Ltd	308	18-Nov-15	83.0%	83.0%
Select Group	Dymon Asia Private Equity	75	23-Mar-16	47.2%	32.5%

Source: Bloomberg, Daiwa estimates
Note: Market capitalisation as at 6 April 2016

All these deals came after the companies in question saw their stock prices hurt as a result of the weak operational environment. Investors that invested in the above stocks (see the preceding table) 3 months ahead of deal announcements would have generated 10-90% returns on their investment. These M&A transactions also serve as a reminder that cheap valuations could catalyse M&A activity across industries to the benefit of investors who time their entry well.

In the Singapore market, we think M&A activity by the property developers, REITS and oil and gas sectors could gather pace as the year progresses due to the challenging macro environment. Below we review where the potential opportunities could lie.

Property sector: buying stocks a cheap way to expand their market presence

Developers with a large proportion of investment properties score well in our screen

For developers looking to expand their market presence, the acquisition of listed companies with property portfolios could be an economical way to realise their ambitions, as several property stocks are currently trading at steep discounts to their book values. In addition, they could enter into win-win situations, for example by enticing sellers to part with assets that would usually not be up for sale, without overpaying for them. Another possibility is that instead of selling out to a third party, major shareholders could seek to privatise companies on the cheap instead.

In view of the subdued Singapore residential market in 2014-15, we believe the corporates will be keener on investment properties, particularly shopping malls and integrated developments that offer recurring income sources.

We have scanned the universe of listed property companies in Singapore with market caps of less than USD2bn that could whet corporates' appetites, based on 3 criteria: 1) those that have at least a 10% discount to their current price-to-book vs. their past-5-year average, 2) assets that are located in Singapore or other developed cities (eg, London), and 3) assets that comprise mainly investment properties. According to our screen, OUE Limited, Wheelock Properties and Ho Bee Land are 3 candidates that meet these requirements.

OUE, Wheelock and Ho Bee score well on our screens

OUE Limited (OUE SP, SGD1.675, Buy [1])

OUE has 3 office properties in the Tanjong Pagar-Raffles Place, namely One Raffles Place, OUE Downtown and OUE Bayfront. As of end-2015, One Raffles Place was 90.1% occupied with an average passing rent of SGD10.26/sq ft per month for 4Q15, while OUE Bayfront was 98.2% occupied with an average passing rent of SGD11.75/sq ft per month for 4Q15. OUE Downtown had a committed occupancy of 91% at the end of 2015. OUE also owns US Bank Tower and Lippo Plaza Shanghai. The drawback of OUE's property portfolio, in our view, is its OUE Twin Peaks residential development, which remained 84% unsold as of 29 January 2016 and is subject to extension charges in early 2017. OUE's major shareholder is Dr. Stephen Riady, who owns 68.5% of the company.

Wheelock Properties (WP SP, SGD1.535, Not rated)

We think Wheelock Properties' retail malls located along the Orchard Road – Wheelock Place and Scotts Square Retail – offer exposure to Singapore's prime shopping belt. While Wheelock Place enjoyed full occupancy as of 31 December 2015, we note that Scotts Square Retail is in the process of leasing out its space following a revamp of its tenant mix. In addition, Wheelock Properties has a high-end residential project, Ardmore Three, which is only 8% sold, despite obtaining its temporary occupation permit in 4Q14, underscoring the challenging environment in the Singapore residential market. Wheelock Properties' major shareholder is Star Attraction Limited, which owns 75.8% of the company.

Ho Bee Land (HOBEE SP, SGD2.16, Not rated)

While 67% of Ho Bee Land's assets is investment properties, most of them are industrial buildings and residential properties. Its only pure office building is The Metropolis. According to a *Business Times* article in April 2015, the property is 96-97% leased with rents of SGD7.80-7.90/sq ft per month. However, its industrial and residential properties (mainly 3 projects in Sentosa which are leased for rental income) could be a roadblock for an acquirer not keen on increasing its exposure to these segments. Ho Bee Land's major shareholder is Ho Bee Holdings, which owns 73.7% of the company.

Singapore-listed property developers: key operational data for selected stocks

			Assets breakdown by segments (SGDm)						
Name	Market Cap (USDm)	Premium / (Discount): current PBR vs. 5Y Avg	Development properties/inventory	Investment properties	PPE	Assoc/ JVs	Cash	Others	Geography commentary
YANLORD LAND GRO	1,788	-8%	48%	14%	2%	1%	22%	12%	100% China
GUOCOLAND LTD	1,562	-31%	50%	26%	5%	5%	7%	8%	About half in Singapore, with one-third in China. Notable properties include Tanjong Pagar Centre
HOTEL PROPERTIES	1,361	7%	7%	22%	38%	25%	5%	4%	Majority in Singapore
WHEELOCK PROPERT	1,330	-9%	30%	31%	0%	15%	16%	8%	Mostly Singapore. Notable properties are Wheelock Place and Scotts Square (Retail)
PERENNIAL REAL E	1,108	44%	27%	36%	0%	31%	3%	4%	Majority in China with malls in Singapore and integrated developments Malaysia and Ghana
OUE LTD	1,106	-38%	11%	69%	0%	10%	2%	8%	Mostly in Singapore. Notable properties include One Raffles Place, OUE Bayfront and OUE Downtown
UNITED ENGINEERS	1,072	8%	25%	41%	8%	4%	12%	9%	Mostly Singapore. Notable properties include UE Bizhub City, UE Bizhub Tower, Seletar Mall (30%) and an integrated development at One-North
HO BEE LAND LTD	1,052	-8%	7%	67%	0%	17%	0%	8%	50-60% in Singapore. Notable property is The Metropolis
WING TAI HLDGS	974	-20%	25%	12%	2%	33%	12%	16%	Pre-dominantly Singapore and Hong Kong
OXLEY HOLDINGS	932	-40%	43%	16%	0%	4%	14%	23%	Geographically diverse in Singapore, Malaysia etc.
GL LTD	860	-7%	11%	0%	75%	0%	3%	11%	Pre-dominantly hospitality assets in UK
BUKIT SEMBAWANG	827	-27%	69%	0%	0%	0%	28%	2%	100% Singapore
YOMA STRATEGIC	679	-15%	46%	16%	3%	4%	2%	29%	100% Myanmar
FAR EAST ORCHARD	451	-10%	6%	21%	29%	13%	7%	23%	Pre-dominantly hospitality assets in Australia
HONG FOK CORP	446	18%	9%	85%	0%	0%	6%	0%	Mostly in Singapore, the rest in Hong Kong
ROXY-PACIFIC	423	-24%	37%	13%	9%	9%	22%	10%	Majority in Singapore
CHIP ENG SENG	320	-21%	33%	15%	12%	1%	23%	17%	Majority in Singapore. Notable office property is CES Centre.
HIAP HOE LTD	242	-36%	14%	16%	53%	0%	3%	15%	Mostly in Singapore, the rest in Australia
WEE HUR HLDGS	178	-45%	53%	10%	2%	0%	23%	12%	Majority in Singapore, foray into Australia in 2014
LIAN BENG GROUP	168	-46%	11%	28%	6%	6%	15%	34%	Mostly in Singapore. Owns 32% stake in Prudential Tower.
HEETON HLDGS LTD	102	-26%	25%	22%	13%	16%	3%	21%	Mostly in Singapore
KOH BROTHERS	88	-16%	2%	13%	15%	10%	10%	50%	Majority in Singapore. Notable property is the Oxford Hotel

Source: Bloomberg, annual reports, results filings, Daiwa estimates; note: market cap is as of 6 April 2016

Oil and gas: opportunities in the small-cap space

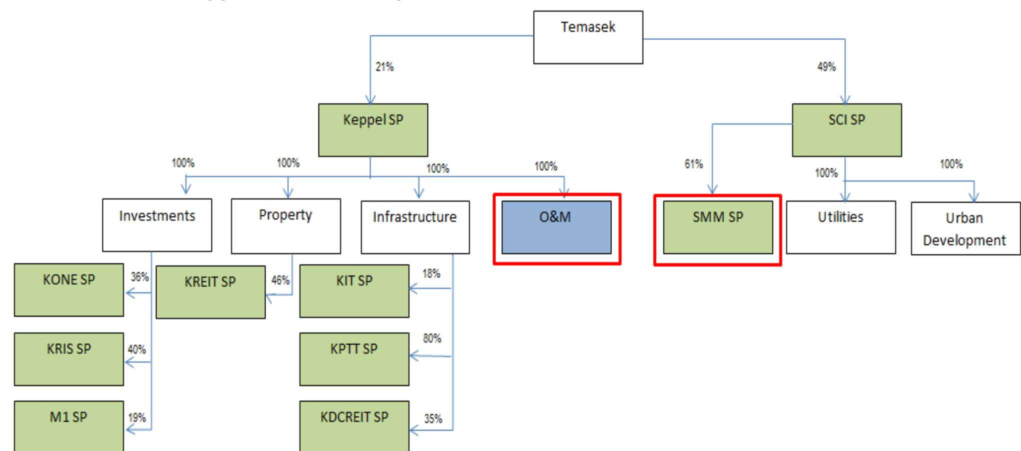
Over the past year, the oil and gas sector has been facing a sea of challenges, triggered by the fall in crude-oil prices, and exacerbated by the fallout from the Petrobras corruption scandal and supply-demand imbalance across the supply chain. With the industry seemingly set for a period of prolonged downturn, many of the corporates are looking to restructure their businesses. The urgency of this process is underscored by rising credit risks across several firms as a result of their over-leveraged balance sheets.

M&A prospects among large-cap rig builders

M&A among large-cap players looks unlikely

Recent news reports in Bloomberg and elsewhere have discussed possible M&A activity relating to Keppel Corp, Sembcorp Marine (SMM) and Semcorp Industries (SCI), including: 1) a potential privatisation of SMM by its major shareholder, SCI, 2) a merger between Keppel Corp and Sembcorp Marine, and 3) divestment by Keppel of non-core assets to third parties.

Shareholders of Keppel and SembCorp Marine related entities



Source: Companies

- The privatisation of SMM by parent SCI is unlikely, in our view. SCI has recently highlighted that it believes its funds are better deployed in value-accretive utilities-related acquisitions.
- An outright Keppel Corp/SMM merger also looks unlikely, as it would be at odds with Keppel Corp's strategy of diversifying away from O&M.
- A merger between SMM and Keppel Corp's O&M division is a possibility, in our view, but such a deal could require a facilitation by state-owned Temasek Holdings, which owns sizeable economic interests in both the firms. As the rig building sector is of strategic importance to Singapore, it is unlikely that these companies would be sold to a third party. Further, given Keppel Corp and SMM's strong overlap in customers and product profiles, we do not see any outright synergies, barring some savings on personnel expenses, arising from the combination of these 2 entities. As such, we believe this scenario would materialise only if the rigbuilding environment deteriorates to a level where the survivability of yards is under question.
- In our opinion, the sale of non-core assets by Keppel Corp (eg, its stake in M1) and SCI remains a possibility. Such an outcome would be best played by going long M1, a stock which we like on a fundamental basis.

Non-core asset sales more likely than a Keppel O&M – SMM merger

Overall, we see the most likely course of action over the next 12 months as being: 1) a rights issue by SMM, given its need for additional working capital funds, and/or 2) the sale of non-core assets by Keppel Corp.

Keppel O&M vs. Sembcorp Marine

	Keppel O&M	SMM
Financials (2015)		
Revenue (SGD m)	6241.3	4968.0
Operating profit (SGD m)	597	-150
Reported net Profit (SGD m)	482	-290
Adjusted net profit (SGD m)	712	319
Margins (%)	11.4%	6.4%
Key ratios (2016)		
P/E (x)	10.1	15.6
P/B (x)	0.9	1.5
Net debt/equity (x)	0.6	1.1
Other metrics		
Order backlog (SGD m)	9,000	10,400
Key Clients	Grupo R, Transocean, Fecon, Sete Brasil	Oro negro, Perisai, Seadrill, Transocean, Sete Brasil
Key products	Jack-ups, Semi-Subs, FPSO & FLNG conversions	Jack-ups, Drillships, FPSO & FLNG conversions
Offshore yards location	Brazil, GoM, North Sea, Azerbaijan, Bintan, China, Philippines	Indonesia, Brazil, India, UK,

Source: Daiwa

Companies that screen well in the small-cap space

We screened companies under our coverage (using price-to-book valuation, shareholding structure, and age of fleet and/or orderbook when applicable) to identify companies that we think could become attractive to larger players as they would help restore the industry supply-demand balance or lessen the risk profile and confer diversification benefits to acquirers. We detail some of the possibilities below.

Comparison metrics for selected O&M players

	Mkt Cap (USDm)	PBR (x)	Net debt(cash) /equity (%)	Cash (reporting currency in m)	Average age of fleet (years)	Order backlog (USDm)	Backlog/ Mkt Cap (x)	Major shareholders
Rigbuilders								
Keppel	7,610	0.9	55	2,118	N.A.	6,429	0.85	Temasek: 21%, Blackrock: 6%
Sembcorp Industries	3,827	0.8	88	1,606	N.A.	N.A.	N.A.	Temasek: 49%, Mondrian Investment: 5%
Sembcorp Marine	2,427	1.5	114	629	N.A.	7,429	3.01	Sembcorp Industries: 61%
Asset owners								
Ezion	633	0.6	111	230	N.A.	N.A.	N.A.	First State: 16%, Credit Suisse: 7%
POSH	477	0.5	50	14	6.1	N.A.	N.A.	Kuok group: 60%
Ezra	220	0.2	81	138	6.5	N.A.	N.A.	Lee Teck Chye: 23%, Credit Suisse: 6%
Pacific Radiance	178	0.4	86	43	5.5	N.A.	N.A.	Pang Yoke Min: 68%
Swissco	91	0.4	69	56	N.A.	N.A.	N.A.	Tan Fuh Gih: 14%
Swiber	64	0.1	159	100	4.7	N.A.	N.A.	Kim Goh: 16%, Pang Yoke Min: 7%
EMAS Offshore	33	0.5	102	51	7	N.A.	N.A.	Ezra: 75%
Yards								
Yangzijiang	2,687	0.8	6	7,021	N.A.	5,360	2.02	Newyard Worldwide: 26%
Cosco	565	0.9	370	1,571	N.A.	8,000	13.9	China Ocean Shipping: 53%
Vard	159	0.4	278	919	N.A.	1,231	7.37	Fincantieri Group: 56%
Baker Technology	128	0.8	-61	140	N.A.	N.A.	N.A.	Benety Chang: 52%
Dyna-Mac	112	0.8	-1	85	N.A.	125	1.19	Lim Tze Jong: 41%, Keppel: 24%
Triyards	93	0.5	29	51	N.A.	564	6.12	Ezra: 61%

Source: Bloomberg, Daiwa

Vard Holdings (Vard SP, SGD0.182, Sell [5])

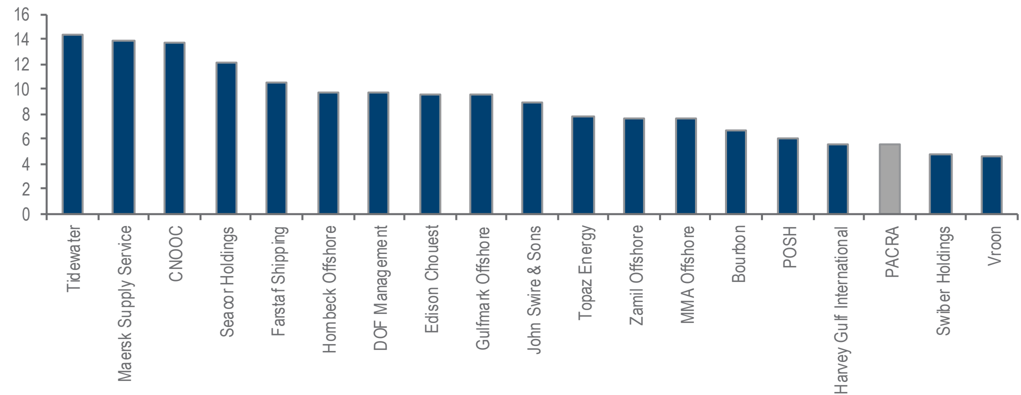
Italy's Fincantieri Group currently holds a 55% stake in Vard. Fincantieri purchased an initial 51% stake in Vard (then known as STX OSV) in 2013 for SGD1.22/share in cash. Vard's share price has fallen to a low of SGD0.124/share this year as worries over its Brazilian and Europe yards' operations intensified. Although we remain bearish on Vard's operational fundamentals and have a Sell (5) call on the shares, we think privatisation remains an upside risk to our call, as its depressed share price could be an attractive proposition in the event Vard's ongoing restructuring exercise to diversify away from its reliance on the offshore industry proves to be successful.

Pacific Radiance (PACRA, SP, SGD0.335, Sell [5])

The current supply glut in the oil & gas sector is especially critical in the off-shore vessels (OSV) segment, where supply has significantly outstripped demand. This supply glut has resulted in rapid falls in utilisation rates, which are now hovering around 50% for most OSV asset classes, with day-rates declining by 30-50%. We believe industry-wide consolidation is an essential move to remove excess supply and bring supply-demand back to parity. An acquisition by a larger player would be an upside risk to our Sell call on Pacific Radiance.

PACRA has among the industry's youngest fleet at 5.5 years on average

Average asset age of major OSV owners (years)



Source: Clarksons Research, Daiwa forecasts

While the financial capabilities of potential acquirers could be a stumbling block in the near term – as the whole industry is currently in the midst of deleveraging – potential acquirers might be interested in companies with younger vessels as a cost-effective way of replenishing their ageing fleets. One such example would be PACRA, given its young fleet of OSVs that averages 5.5 years vs. industry peers of about 9 years. In addition, the company is currently trading at a 60% discount to its 2015 book value, which could appeal to some of its larger industry peers.

Dyna-Mac Holdings (DMHL SP, Not rated)

Keppel Corp acquired Cameron's offshore rigs business for USD100m in August 2015. The acquisition enabled the firm to expand its knowledge base and technologies in the aftermarket services segment. We think many firms could use the current downcycle to expand their product capabilities through vertical integration.

We also note that Keppel owns a 27.8% stake in Dyna-Mac Holdings. The company is engaged in the fabrication and assembly of topside modules for floating production storage and offloading vessels (FPSOs) and floating storage and offloading vessels (FSOs). We view these activities as complementary to Keppel Corp's conversion projects for FPSOs as would enable Keppel Corp to exert better control over the process of designing and fabricating oil and gas production modules.

S-REITs: industrial REITs score well in our screen

The regulatory 'green light'

Up until the Monetary Authority of Singapore's (MAS) response (on 2 July 2015) to feedback on its industry consultation paper on enhancements to the regulatory regime governing REITs and REIT managers, we believe there was some regulatory uncertainty surrounding M&A in the REIT sector. MAS has made the following clarification as regards its response:

"MAS is prepared to consider applications from REIT managers to manage more than one REIT, if the REIT managers have the necessary expertise, and properly mitigated the potential conflicts of interests arising from managing multiple REITs."

Regulatory environment has turned more favourable towards M&A

We interpret this statement to mean that MAS would still reserve the right to decide on which REIT managers are allowed to manage multiple REITs, but it no longer has any hang-up, in principle, on REIT managers managing multiple REITs concurrently.

With greater regulatory uncertainty likely out of the way, we see a more conducive M&A environment. Under this scenario, we believe the most natural M&A opportunities in Singapore would involve one listed REIT acquiring another listed REIT (with the intention of absorbing, eventually, the assets as well as the separate REIT managers into a single, larger REIT entity). In our view, the latest MAS clarification provides the necessary green

light (if there was any doubt before) for all industry participants to consider M&A opportunities that they see fit without fear of a regulatory impediment.

Attractive valuations for targets

For any M&A to proceed, the valuation targets must be attractive for potential buyers. There are many indicators of value, but we believe the most reliable and transparent would be discount to book value. We use book value interchangeably with NAV because S-REITs must value their properties (through the appraised valuations by recognised property consultants) at least once a year and most would conduct the valuations in the December quarter. The main reason we believe book value is relevant is because it provides an indication of the relative attraction of buying assets through the physical market versus the stock market.

The REITs that might look most attractive to a potential acquirer would intuitively be those listed REITs that trade at the biggest discounts to book (or NAV) because it would be cheaper for their acquirers to buy their assets in the stock market vs. (hypothetically) buying those same assets in the physical market. Moreover, the wider the discount the better the M&A potential because it would allow the acquirer greater scope to pay a premium over the last traded price (to entice all unitholders to accept the office) and still buy the REIT at a discount to NAV.

No large sponsors/unitholders

In addition to trading at a large discount to NAV, the acquisition target should also have a relatively large free float, ie, with no deeply entrenched major unitholder (usually but not always the sponsor) unwilling to sell its stake regardless of the price of the takeover bid. This influential unitholder might exert great influence (in its decision not to sell) on the minority unitholders such that any takeover bid is likely to fail. The threat of a likely failure (in the takeover bid) alone could discourage any takeover bids.

Are the larger players willing to take out smaller players?

Acquirers would likely be large listed REITS

For the S-REIT sector, we believe the most likely buyers would be the bigger REITs, which already have industry knowledge and property and fund management expertise. The larger and more liquid REITs also trade at premiums (on both their NAVs and DPU yields) to the smaller peers within their property sub-segments such that it makes financial sense to acquire the smaller REITs given the existing valuation 'arbitrage'.

The potential for M&A within the listed REIT sector (with large REITs trading at a premium to the smaller ones within the same sub-segment) has always existed in the market for years, so the final, necessary condition for M&A activity is the willingness of buyers to pull the trigger. With believe regulatory clarity, which could have been an impediment, has improved with MAS's clarification and the valuation gap between potential acquirers and acquisition targets, while currently not at the widest ever, is still at an attractive level.

It is up to the senior managements and boards of the larger REITs, many of which are government-linked, to make their final decisions. We believe it is as good a time as ever to engage in M&A because the cost of acquiring physical assets in Singapore is prohibitive and DPU-dilutive, and compared with buying properties overseas, which has its own set of risks, the larger REIT managers should not ignore the M&A route to acquire assets in their home markets. No doubt, it would be a more protracted process, closely scrutinised by the market, but the potential for significant DPU-accretion is much higher than for any alternative investment, in our opinion.

M&A: a catalyst to an internally managed structure?

We see limited potential for cost savings from acquiring or merging REITs because all S-REITs are externally managed, ie, staff costs and other fund-management related expenses are paid through a fixed fund management fee that is pegged typically to a percentage of total assets or income (or some combination). However, we believe it is

possible in the future for a merged entity to adopt an internally managed model because the enlarged entity would benefit from economies of scale, which would lower the overall expenses of the REIT for the unitholder. MAS has also clarified (in its response to feedback) that both internally and externally managed REIT structures are allowed in Singapore.

REITs that score well in our screen

In our screen we have looked at 2 key variables: price-to-book value and ownership structure. Given the logistics involved, the ideal acquisition targets would be those S-REITs that trade at meaningful discounts to book (NAV) and with relatively low stakes held by the largest unitholder or sponsor. We have excluded REITs that trade at discounts to NAV and are held by government-linked sponsors that we believe would be unlikely to cede their stakes (since these REITs still serve as vehicles to monetise their assets in the future and the current discounts could be due to cyclical factors).

The following table, ranked by discount to NAV (book), presents the 6 names that score well according to our screen.

Industrial-property REITs score well in our screen

S-REITs: trading at discount to NAV with relatively low sponsor stakes

Name	Code	Price SGD	Latest BVPU SGD	Premium/ (discount) %	Largest shareholder	Stake %	Market cap SGDm
SABANA SHARIAH COMP IND REIT	SSREIT SP	0.63	0.89	-29.2	Jinquan Tong	8.4	462
CAMBRIDGE INDUSTRIAL TRUST	CREIT SP	0.56	0.67	-16.4	Jinquan Tong	16.3	730
STARHILL GLOBAL REIT	SGREIT SP	0.775	0.9	-13.9	YTL	35.8	1690
AIMS AMP CAPITAL INDUSTRIAL	AAREIT SP	1.34	1.52	-11.8	Dragon Pacific	11.3	851
SOILBUILD BUSINESS SPACE REIT	SBREIT SP	0.725	0.8	-9.4	CH Lim	24.7	680
CACHE LOGISTICS TRUST	CACHE SP	0.845	0.88	-4	CWT	4.4	755

Source: Bloomberg; closing prices as at 6 April 2016

All of the names (with the exception of Starhill Global REIT) are in the industrial-property segment. As many of these smaller industrial-property REITs hold largely Singapore-based assets (many of them high quality, in our opinion), we note that the larger government-linked REITs would probably face lower integration risks if they were to decide to be active in M&A. Under this scenario, we note that any merger (especially if accompanied by a transition of an internally managed structure) could be highly DPU-accretive for unitholders.

As for Starhill Global REIT, we regard the discount to NAV as attractive for potential buyers, though the 35.8% holding by sponsor YTL is probably borderline in terms of its status as a 'loosely held' REIT.

Banks: small bite-sized moves are possible

No major, transformational deals

We do not expect the Singapore banks to announce any major acquisitions in the coming year.

DBS share price could include an acquisition discount

One possible reason for DBS's valuation (PER and PBR) discount vs. its peers is that some market observers believe it might acquire Standard Chartered (SCB). We do not share this view, and believe that any major acquisition would be harmful for DBS due to the inevitable EPS and ROE dilution it would cause and the Singapore banks' consistently poor track record of large overseas acquisitions.

We view it as an opportunity to buy

As recently as 18 December 2015, DBS said there was no basis to a brokerage report suggesting that DBS could acquire SCB. We regard any valuation discount attributed to misplaced M&A concerns as a buying opportunity, as we put a lot more faith in the current management's word on the matter than other less reputable elements in the market simply because management has delivered a consistently strong financial performance and a more competitive and formidable organisation over the years.

Smaller, bite-size acquisitions still possible

Smaller, less risky deals to build the franchise

Instead, we expect the Singapore banks to continue to pursue targeted acquisitions of business units that might be up for sale in Asia. These deals are unlikely to move the needle much, but have much lower execution risks. If done property, these incremental additions could contribute to revenue and profit growth in the short term (quarterly results) and enhance the strength of the banks' franchise over the longer term. Scaling up their wealth management capability to be a leading wealth management institution in Asia is a major ambition of all 3 Singapore banks.

Wealth managers remain a target

On the heels of a relatively successful acquisition (a 95% retention rate of the private bankers) of Societe Generale's private banking business in Asia (completed in October 2014) for USD220m (representing a valuation of about 1.75% of AUM), DBS (and the other Singapore banks) is still setting its sights on acquiring other wealth management businesses. On 7 April 2016, we note that OCBC announced plans to acquire Barclay's wealth management business in Singapore and Hong Kong for USD320m (also a valuation of 1.75% of AUM).

Other assets up for sale as some banks pull out, downsize

We also think bite-sized acquisitions may not necessarily be limited to the wealth management sector. There could be attractive investment opportunities as some western and even Australian banks downsize or pull out of Asia. It was reported in the Indian press (on 14 March 2016) that DBS is likely to acquire the onshore Indian operations (corporate loan arm, debt capital market and 10 branches) of Royal Bank of Scotland for about SGD204m.

Secular demand stories

The long-term picture for the healthcare, education, public transport, and security sectors is a positive one as these industries remain spending areas for the Singapore Government. Below we examine some of the stock-specific opportunities in these sectors.

Healthcare: Raffles Medical

Long-term structural growth drivers point to sustained demand for quality healthcare services in Singapore

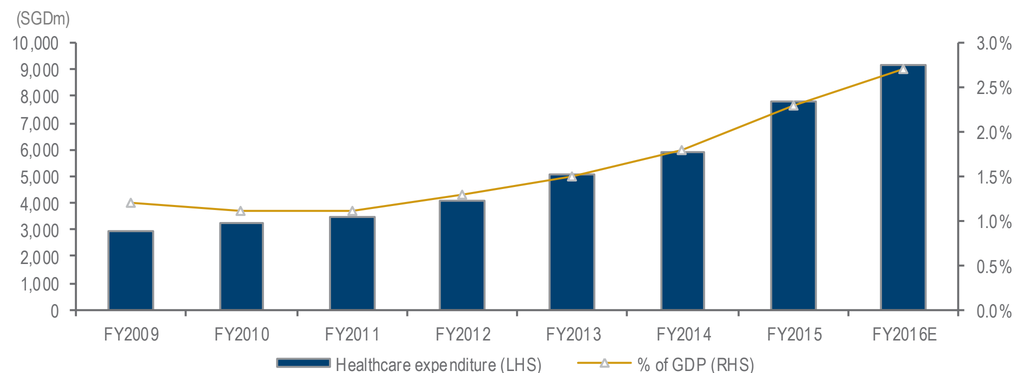
The healthcare sector has been a key focus area for the Singapore Government in recent years, underpinned by structural factors such as population growth, a higher chronic disease burden as well as an ageing population pointing toward a sustained demand for healthcare services over the longer term. According to the Ministry of Health, it estimates 1 in every 5 Singaporeans (20%) will be above the age of 65 by 2030, which represents more than a 2-fold increase to 960,000 from about 400,000 currently. Further, recent issues highlight the existing gap between infrastructure and demand: several public hospitals are reportedly facing bed utilisation levels in excess of 100%, leading to temporary make-shift hospital beds being set up.

We expect demand for private healthcare services to remain robust in the near term, driven by a shortage of capacity in the public sector, as well as favourable government policies allowing for the 'portability' of subsidies to the private healthcare market. Over the longer term, we believe demographic trends in Singapore point to a sustained need for a quality healthcare system, and we expect Raffles Medical to be a beneficiary of these trends.

Investment in public sector infrastructure

Cognizant of the issue, the Singapore Government has allocated an increasing budget to the healthcare sector – from SGD2.9bn in FY09 to a budgeted SGD9.2bn in FY16. In October 2013, the government announced plans to expand national healthcare capacity as part of the Ministry of Health's (MOH) Healthcare 2020 Masterplan. One of the proposed developments, Seng Kang General Hospital, will have 1,400 beds with an acute (1,000 beds) and community hospital (400 beds) located side-by-side. This will make it one of the largest public hospitals in Singapore, after Singapore General Hospital (1,700 beds) and Tan Tock Seng Hospital (1,200 beds).

Singapore Healthcare: government sector expenditure



Source: Ministry of Finance

In total, around 3,700 hospital beds (both private and public) could be added from 2014-18, representing a 31% increase from the c.11,900 (both acute and long-term beds) currently. While this may seem like a significant increase, we believe the measure is necessary to alleviate the stretched utilisation rates and heavy patient loads faced by public sector hospitals.

In the short term, the current bed crunch in public hospitals may spur patients who can afford private healthcare to seek treatment at private hospitals. As Raffles Medical's

average bill size is lower than that of its key private hospital competitors, it would likely to be a key beneficiary of this trend.

Policy initiatives to benefit private healthcare providers in the near term

Making public healthcare subsidies 'portable' to private players

While long-term expansion of healthcare facilities is under way, the duress on healthcare facilities in the short term has been apparent through the high utilisation rates and long waiting times at public hospitals. Consequently, the government has taken steps to tap into the private healthcare sector by making subsidies 'portable' – in essence allowing patients to receive private healthcare while enjoying subsidised rates, thus easing the burden on the public sector.

This has been evident through recent initiatives such as: 1) the Community Health Assist Scheme (CHAS), which allows patients to receive primary care and dental care from participating clinics, and 2) the Pioneer Generation package, where the government has subsidised healthcare treatment drastically for the elderly, as well as 3) a tie-up between Raffles Hospital and the Singapore Civil Defence since 2H15, the first time this has been done.

Macro factors – a growing ageing populace and economic growth

While the direct effects may be difficult to quantify, several demographic and macroeconomic factors are likely to signal underlying growth trends in the Singapore healthcare market.

A growing ageing populace. Singapore's population grew at a rapid rate (+21%) over the 2006-12 period, while its resident population increased by 8% over the same period. According to a white paper published by the government (*A sustainable population for a dynamic Singapore,* January 2013), it projects a total population as large as 6.9m people by 2030.

Singapore age distribution of resident population

Age Group (Years)	1990	2000	2010	2014	2015
Total (%)	100.0	100.0	100.0	100.0	100.0
Below 15	23.0	21.9	17.4	15.7	15.4
15-24	16.9	12.9	13.5	13.2	13.0
25-34	21.5	17.0	15.1	14.4	14.4
35-44	16.9	19.4	16.7	16.0	15.8
45-54	9.0	14.3	16.6	16.1	15.8
55-64	6.7	7.2	11.7	13.4	13.7
65 & Over	6.0	7.2	9.0	11.2	11.8
Median Age (Years)	29.8	34.0	37.4	39.3	39.6

Source: Singapore Department of Statistics

At the same time, Singaporeans are expected to live longer, as the average life expectancy in Singapore rose from 73.1 to 79.9 for males and 77.6 to 84.5 for females from 1990-2012. This has led to an increasingly ageing population – elderly persons (aged 65 and above) comprised 10.5% of Singapore's resident population in 2013 (vs. 6.0% in 1990) (see table below).

The Singapore Government has taken steps to pre-empt this 'silver tsunami' by adopting a holistic step-down care approach toward cushioning the potential societal and economic impact. The Agency for Integrated Care (AIC) was formed as an independent corporate entity under MOH Holdings (MOHH) in 2009 to coordinate, manage and monitor patient referrals to the entire spectrum of long-term care services (ILTC).

Healthcare services associated with an ageing population

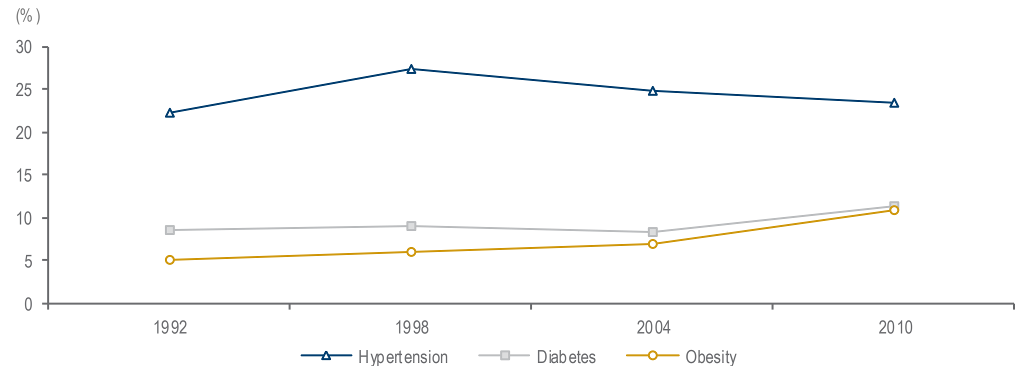
In our view, the demand for services associated with an ageing populace (eg, cardiovascular disease, cancer, arthritis, cataracts, osteoporosis, diabetes, hypertension and Alzheimer's disease) should continue to be a key trend across healthcare providers such as Raffles Medical. According to the company, it has increased its focus on several

specialist areas: oncology, orthopaedics, cardiology and obstetrics and gynaecology (OBG) in anticipation of an increase in demand for such services.

Chronic diseases prevalent in urbanised societies

Healthcare spending as a percentage of GDP from higher chronic disease burden. Typically, strong economic growth in developed countries such as Singapore is associated with a higher incidence of chronic diseases (heart disease, obesity, diabetes, etc.), due largely to shifts in lifestyle and diet. According to the Health Promotion Board (a government body established to manage health promotion and disease prevention in Singapore) one in 4 Singaporeans aged 40 years and above has at least one chronic disease.

Singapore Healthcare: chronic disease burden (prevalence among adults aged 18-69 years



Source: MOH

In per capita terms and as a percentage of GDP, Singapore's healthcare expenditure is the lowest in all the high-income countries in the world – a testament to the low-cost, high-quality standard of its healthcare industry. However, we expect the healthcare expenditure of Singaporeans to grow in tandem with a higher incidence of chronic diseases – private healthcare providers such as Raffles Medical are likely to be key beneficiaries of such a trend, in our view.

Raffles Medical: transforming into a regional healthcare player

We observe that Raffles Medical is beginning to position itself as a regional healthcare services provider, with an integrated health network across 13 cities in Asia. As capacity issues (in particular bed shortages) in the Singapore public healthcare sector will be addressed over the next several years, we expect management to shift greater attention toward driving growth in its overseas businesses. In our view, this makes sense given: 1) the company's Group Practice model, which ensures consistency of care delivery across its network, as well as 2) its strong corporate client base (more than 6,500 corporates, accounting for around 67% of its patient base).

Getting access to new markets

Raffles Medical's recent acquisition of International SOS for USD24.5m (completed in October 2015) appears largely strategic in nature to us. With the company's existing corporate client base, the ISOS acquisition could play an important role in crystallising Raffles Medical's plans to transform its business into a regional healthcare operator. With the acquisition, Raffles Medical will manage the operations of 10 ISOS clinics in China (6 clinics), Vietnam (3 clinics) and Cambodia (1 clinic) through a joint venture with MC Holdings (MCH). We believe this will enable Raffles Medical's corporate patients to receive treatment across various markets.

In terms of its expansion plans in China, we believe plans for its Shanghai hospital remain on track, and we continue to expect the hospital to be completed by mid-2018. We have a DCF-based valuation for the Shanghai hospital of SGD0.50/share. Further, the company is still also in the negotiation stages with its joint-venture partner, China Merchants Group, to develop a 200-bed hospital in Shekou, Shenzhen, at an estimated cost of SGD150m. We have not incorporated the potential from this Shenzhen hospital into our forecasts given

the lack of clarity at this stage. However, we believe the company remains committed to the project; any firm announcement of plans for a Shenzhen hospital would remain a key share-price catalyst, in our view.

Land transport: event-driven catalysts

The Singapore Government has undertaken a range of measures in recent years, both in the form of policy implementation and greater infrastructure development, to drive greater usage of public transport services in the land-scarce city state. During last year's (FY15) Budget speech, it announced that in addition to the SGD14bn investment in the public transport system over the past 5 years, a further SGD36bn would be committed for the next 5 years.

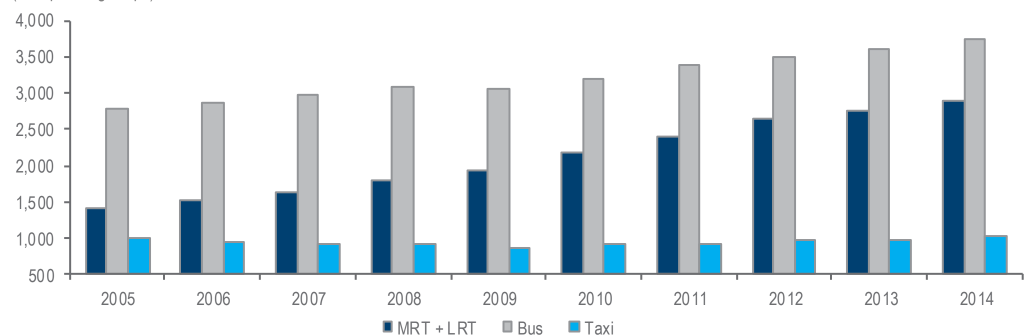
2016: a pivotal year for Singapore public transport

2016 will be a pivotal year for the public transport landscape in Singapore, particularly in the bus segment, with the transition to a new government contracting model (GCM) in September 2016 (for more on this topic, see our sector report, *What will restructuring mean for the bus market in 2016?*, 18 March 2016). In the rail segment, the network is estimated to double in length to 360km in 2030, from 178km currently with the introduction of 2 new major lines to be financed and built by the government under a new framework.

Meanwhile, recent news flow suggests to us that public transport ridership will continue to see robust growth over both the near and longer term. In a recent addendum to the President's Address in January 2016, the transport minister outlined his aim to have 75% of commuters using public transport as their main mode of travel by 2030. In addition, the General Household Survey 2015 indicated that around 58.7% of Singapore's resident working population commutes to work by public transport, up from 54.6% in 2010.

Singapore Land Transport Sector: average daily ridership (ADR) trends

('000 passenger-trips)



Source: Land Transport Authority (LTA)

Bus segment: biggest restructuring in the near term

The new GCM will operate under a competitive tender based system whereby all bus routes in Singapore would be divided into 12 packages – 3 of the 12 packages (each around 300-500 buses) are to be tendered out between 2014 and mid-2016, while incumbents ComfortDelGro (CDG) and SMRT Corp (SMRT) will continue to operate the remaining 9 packages until August 2021. The government will use the results of the initial 3 packages as a basis for negotiating the terms for the remaining 9 (which comprise around 80% of the existing bus fleet) with the 2 incumbents.

Why the need for a new bus model?

The new Singapore bus model aims to replicate the success seen in developed markets such as the UK and Australia, where similar models have been implemented. Under the current system, bus operators shoulder revenue and ridership risks. Despite the good ridership growth experienced over the past decade, regulated fare pricing (governed by the Fare Review Mechanism Committee of the Public Transport Council [PTC]) has restricted operators from raising fare prices in tandem even in the face of rising costs.

As a result, both incumbent operators have posted poor operating-profit performances over the past several years, as they have had to absorb escalations in labour and operating costs in response to demand for higher bus-service standards. Besides this, operators have been reluctant to increase fleet capacity and generally improve service standards at the expense of further erosion in profitability.

A careful balance between each stakeholder's interests

With the planned implementation of the Government Contracting Model (GCM) in September 2016, the government's ultimate aim is to raise service standards for public transport commuters by being able to transmit more effectively changes in bus services (frequency, punctuality, route details, etc.) as well as managing fleet capacity, while balancing the interests of all key stakeholders (regulator, commuters and operators).

For operators, the removal of revenue risk would mean that cost control and service quality become 2 important aspects of profitability, given that cost savings accrue to the operator, while meeting or exceeding operating standards would secure bonus/incentive payments.

How will existing operators CDG and SMRT be affected?

Our recent discussions with new entrant Go-Ahead, as well as our analysis of the London bus market, where a similar model has been in place since 2000, strengthen our conviction that the transport service providers our coverage would be net beneficiaries of the shift to the GCM, mainly as we foresee: 1) scope for operating-margin enhancement as revenue risk is transferred to the government, 2) reduced capex burdens as the government will assume asset ownership, and 3) capital proceeds from a potential acquisition of existing bus assets.

Regulator could acquire CDG's bus fleet for SGD566m, on our estimates

We estimate the move to the GCM will account for 5-9% of our operating profit forecasts for CDG for 2016-18, and 4-7% of SMRT's for FY17-19. In terms of asset acquisitions, we believe a direct acquisition remains the most sensible option for the regulator, and estimate net inflows of around SGD566m and SGD44.6m for CDG and SMRT, respectively.

Rail segment: no clarity over reforms yet

Transition to new rail model still uncertain, potential deal terms unclear

Background. In 2010, the Rapid Transit Systems Act was amended to allow the implementation of a new rail financing framework, following its proposal by the Land Transport Authority (LTA). Under the framework, the government will own all train assets; meanwhile operators will pay a licence fee to a Railway Sinking Fund, retaining fare revenue and shouldering all operating and maintenance costs. At the same time, the licensing period for new rail lines (starting with the Downtown Line [DTL]) was shortened to 15 years from 30-40 years. In this manner, the LTA will be better positioned to respond and ensure adequate capacity is available to meet projected demand. The DTL (operated by SBS Transit) was the first line subjected to this new asset-light operating model.

Singapore rail: changes to rail model

	Existing model	Potential new model
Financing framework	"Line-by-line" approach to evaluating the financial viability of new lines	Network approach to evaluating financial viability of new lines
License period	30 years	15 years
License fees	% of fare revenue	Licence charge, comprising fixed and variable components, pooled in a Railway Sinking Fund
Asset ownership	Government owns infrastructure assets; Operator owns operating assets	Government owns all rail assets
Repair and maintenance	Responsibility of operator	Responsibility of operator
Fare and ridership risks	Borne by operator	Borne by operator

Source: LTA, compiled by Daiwa

At present, SMRT owns the operating assets for the North-South and East-West Lines (NSEWL) (purchased from the government on 1 April 1998 for SGD1.2bn) and Bukit Panjang Light Rail Transit (BPLRT); its Circle Line (CCL) assets are owned by the LTA, although SMRT is supposed to purchase these assets at book value on 4 May 2019, according to the LTA.

While we expect all the rail networks to eventually transition to the new rail model, the timing and details remain unclear at this stage. According to SMRT's management and statements from the regulator, negotiations over its operating assets with the government are ongoing, with no indication as to when they will be finalised. We expect the operating terms to be broadly similar to those of the DTL – although details on the LTA's acquisition of operating assets from SMRT remain unclear. Based on the company's disclosure, its segmental MRT net asset value stood at around SGD463.1m as at end-FY15, or SGD0.30/share.

Further, comments made by the previous transport minister in July 2014 highlighting the "wide gap between SMRT's expectations and the LTA's position", as well as the current minister's comments in January 2016 flagging an improvement in rail reliability as a "top priority" in the near term, suggest that the central agenda continues to be on improving Singapore's rail reliability.

Focus remains on rail reliability

Rail restructuring could stretch into 2018, in our view

In our view, it would be in the best interests of both the government and Singapore public for SMRT to fulfil all existing obligations with respect to network efficacy, before addressing asset acquisitions. Further, given that the government already owns rail infrastructure (the assets expected to be acquired include mainly SMRT's NSEWL rolling stock), a transition to a new rail model is unlikely to materially alter the complexion of SMRT's rail business positively from an operational standpoint. As such, the case for a transition of the NSEWL to a new rail model appears weak to us.

We believe negotiations between SMRT and the regulator will gain more traction only after the operator has fulfilled its obligations to return network reliability to satisfactory levels under its existing licence requirements – indicating a timeline that could stretch beyond 2018.

Where would be investment opportunities from a government intervention/privatisation standpoint?

The debate between 'privatisation or nationalisation' of the public transport sector has been ongoing for the past decade – dialogue was however reignited in 2011 following 2 high-profile disruptions on SMRT's NSEWL, as well as in 2012 with the introduction of the SGD1.1bn government-funded Service Enhancement Programme (BSEP) programme.

Bus segment

Could SBS Transit be privatised?

With the transition to the new GCM imminent, the Singapore Government is expected to take ownership of all existing bus assets, as well as future capex commitments. In December 2015, the government took a step closer toward this by announcing that it would be taking over SBS Transit's contracts for new bus purchases scheduled for delivery in 2017 and 2017 (worth SGD164m), as well as acquire 50 of CDG's non-BSEP buses for SGD23m at net book value. We believe the move heightens the potential for the company's remaining bus assets to be acquired in similar fashion in the near-term.

Consequently, we forecast CDG's FCF to increase strongly at a CAGR of 19.6% over 2014-17, and estimate net proceeds of SGD566m from the sale of its existing Singapore bus assets to the government by 3Q16.

ComfortDelGro could prioritize M&A ahead of special dividends

Given CDG's already strong balance sheet (net cash of SGD229.2m as at end-2015), a natural question to follow would be what management intends to do with the excess capital. In our view, management is likely to prioritise pursuing value-accretive acquisitions over returning the excess capital to shareholders in the form of a higher dividend payout or special dividend.

Where could CDG target acquisitions? Based on our prior discussions with the company, we believe it remains keen to expand its existing footprint in the markets of UK and Australia, where it has an existing presence. According to management, around 75-80% of the Australia bus market continues to be operated by the state, which had acquired inefficient family-owned private bus companies over the years. In NSW, for example, the majority of bus services is still provided by the State Transit Authority (STA), which has a fleet of over 2,151 (as at the end of March 2015) operating over 300 routes in Sydney. We believe the market could continue to open up to private operators such as CDG, which has established itself as a reliable operator.

In the absence of attractive overseas acquisition targets, we believe the privatisation of 75%-owned subsidiary SBS Transit (SBST) (SBUS, SGD2.20, Not rated) could be a sensible use of excess capital given that it is likely to be earnings accretive for CDG following the transition of its bus segment to the new GCM.

Given SBST's existing market cap of SGD680m and an offer price at a 20% premium to current price levels, we estimate that CDG would need around SGD204m, assuming the privatisation offer takes place after the sale of bus assets and accounting for the estimated SGD556 in net proceeds from such a sale.

CDG: potential SBS Transit privatisation

SGD m	
Market cap	680
@ 20% premium	816
25% minority to be acquired	**204**

Source: Company, Daiwa estimates

The privatisation of SBS Transit would also allow CDG full access to the bus asset sale proceeds, considering that SBS Transit's existing balance sheet constraints (shareholder equity of SGD338.7m at end-2015) would limit its ability to pay a special dividend, which would see the full proceeds returned.

Rail segment

How could negotiations conclude between the government and SMRT?

Relative to the bus segment, little is known about the potential reforms in the rail segment, even though negotiations between SMRT and the LTA have been ongoing for 2 years. However, as positive rail reforms would represent a key upside risk to our negative thesis and valuation for the stock, we assess the potential impact of reform in the near term under 2 possible scenarios.

Asset-light rail model would be positive for SMRT

Scenario 1: transition to a new rail model – If the government announces a transition of SMRT's NSEWL to a new rail model in the near term, we would see the following potential impact on SMRT based on several estimates and assumptions: 1) proceeds of around SGD463m (SGD30cents/share) arising from the acquisition of its NSEWL operating assets, 2) an estimated annual capex reduction of around SGD120m, given that rail capex accounts for around 50% of overall capex spend, and 3) an assumed improvement in its rail segment operating margin to 5% by FY19. Based on our back-of-the-envelope calculations, this translates into a potential valuation uplift of SGD1.17/share to our existing target price (assuming gearing levels remain unchanged).

SMRT: potential impact of transition to new rail model on our current valuation

	Operational assumptions	Uplift to Daiwa's target price (SGD/share)
Asset sale proceeds	Assets are acquired in a lump sum of around SGD463m based on the existing NAV of the MRT segment	0.30
Capex savings	SGD120m in annual capex reduction	0.72
Operating margin	Assumption that FY19 margin improves to 5% from current forecasts	0.15
Total valuation impact	**Assuming no change to gearing levels**	**1.17**

Source: Daiwa estimates

Low probability of this happening, in our view

Scenario 2: nationalisation of SMRT – Calls to nationalise SMRT have resurfaced in recent months, following the July 2015 NSEWL rail disruption. On balance, we believe the probability of this happening is low. It is clear that the government's policy changes reflect a move to "nationalise" public transport infrastructure and operating assets, indicating an intention to separate asset-ownership (government) from the operators (private). This structure will afford the government a more timely response to changes in capacity and infrastructure demands, while transmitting service requirements to industry operators through competitive tenders. As such, we believe it would make little sense to privatise SMRT. In the event of a nationalisation scenario occurring, we see upside risk to our target price if controlling shareholder Temasek Holdings acquires the minority interest at a premium to current share price levels.

Consumer staples: Sheng Siong

Government support for spending on consumer staples in Budget 2016

In what appears to us as a bid to cushion the impact of the cyclical downturn on households, the 2016 Budget included several benefits including: 1) one-off GST vouchers, of SGD200 to eligible Singaporeans, and 2) the Silver Support scheme, which provides up to SGD750 per qualifying person per quarter. We expect these schemes to benefit consumer staples businesses like Sheng Siong, particularly given its positioning as a low-cost supermarket operator whose outlets are located primarily in suburban areas of Singapore.

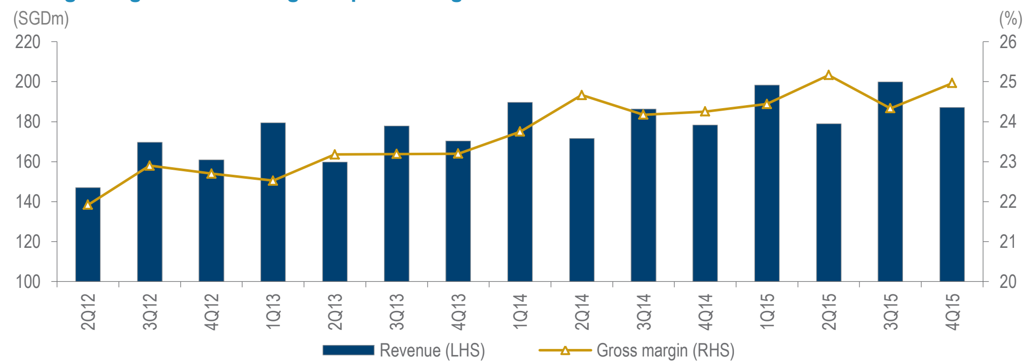
Further, the announcement of an enhancement of the government's ongoing Revitalisation of Shops (ROS) scheme will see around SGD15m allocated to this initiative annually. While it is uncertain whether Sheng Siong will be a direct beneficiary, the company could likely benefit indirectly from an overall revitalisation of the vicinity of its older outlets, through an improvement in footfall as well as accessibility. As a side, management had also previously highlighted its aim to continue renovation of its older stores in a bid to improve same store sales growth. We forecast 2016 sales growth of 8.7% YoY to be driven largely by a 32,000sq ft expansion in gross floor area from new store openings in 2016, as well as the 6 new stores opened between 4Q14-4Q15.

Incentives to automate could drive margin efficiency

Another standout in the 2016 Budget from which Sheng Siong stands to benefit is the implementation of the Automation Support Package, where around SGD400m will allocated over the next 3 years to support businesses seeking to initiate or scale up automation projects. The package includes a grant of up to 50% of the project, with a cap of SGD1m, and will also provide a 100% investment allowance for automation equipment.

Sheng Siong has been active in tapping into government grants to drive operational efficiency and cost management. In 2012, the company installed a new pick-to-light warehouse management system at its Mandai warehouse. The following year, in 2013, it utilised the Productivity and Innovation Credit (PIC) scheme to install one of the largest single solar panel installations in Singapore on the rooftop of its Mandai warehouse. Most recently, the company installed hybrid check-out systems at some of its newer outlets to increase productivity levels.

Sheng Siong: revenue and gross profit margin trend



Source: Company

These cost-management initiatives contributed to a 2.6pp gross margin improvement over 2012-15, a key reason for Sheng Siong's 22.1% net profit CAGR over the same period, despite a lack of new store openings for 2 years between 2013-14. We expect overall margin expansion to continue to be driven by these cost-management initiatives which could lower average input prices (bulk handling, direct purchasing, etc.) as its increasing store base better utilises the warehouse space, as well as operational efficiencies from other potential productivity improvements which could be funded by these government grants.

Prudent store expansion strategy

Management has always highlighted its new store strategy of opening in suburban areas in Singapore where the Sheng Siong brand has a limited presence (eg, Punggol, Seng Kang, Bukit Panjang etc.), outlining a long-term target of around 50 stores in Singapore, as its Mandai warehouse is equipped to handle the demands of such a store base. Notably, the company's most recent new store openings have been consistent with this strategy.

Sheng Siong: new store openings since 2012 (33 stores prior to 2012)

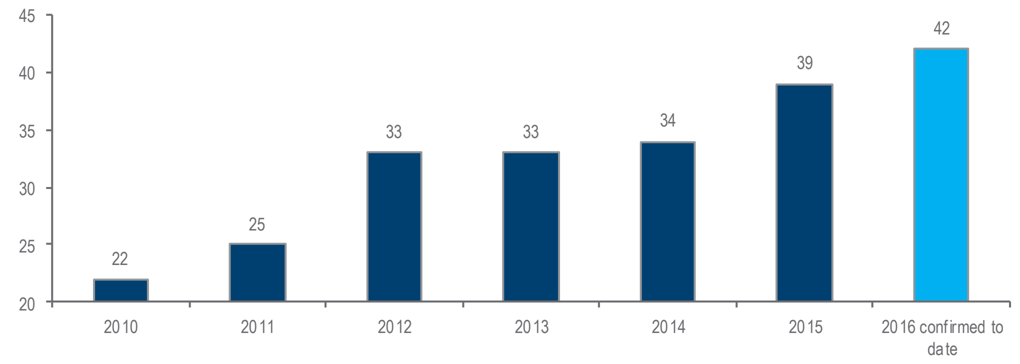
Location	GFA (sq ft)	Opened
Penjuru	4,000	4Q14
Tampines Central	9,800	1Q15
Punggol	3,400	1Q15
Bukit Panjang	5,200	2Q15
Pasir Ris	3,200	2Q15
Queenstown (Dawson)	4,300	4Q15
Circuit Road	3,500	1Q16
Upcoming		
Yishun Junction 9	18,600	2Q16
Tampines Central expansion	10,000	4Q16

Source: Company, Daiwa compiled

New housing completions in suburban Singapore present opportunities for new store openings

In addition, management said it will remain prudent in its expansion strategy by avoiding overpaying for leasing rates, balancing these against factors such as location and shopper traffic. Consequently, Sheng Siong saw no new store openings for the 2-year period between 2013 and 1014, where management said the rental environment for commercial space was challenging. Looking ahead, management believes the rental market has softened relative to conditions observed in 2013-14, and sees opportunities with the upcoming supply of around 25,000 completions of public housing units expected over 2016-17.

Sheng Siong: store count trend



Source: Company

Disruptors

Telecoms sector: how to play new entrant threats

The upcoming spectrum auctions in Singapore, likely to be held by 3Q16, could pave way for new players to enter the Singapore mobile market, thus having the potential to be highly disruptive to the existing status-quo in the industry.

Singapore spectrum auctions: Timeline of key events

Date	Key events
Apr-16	Draft memorandum for auction rules
Mid 2016	Expression of interest by prospective new entrants
3Q16	New entrant spectrum auction
4Q16	General spectrum auction

Source: IDA

Auctions likely to be held by 3Q16

The Infocomm Development Authority (IDA) recently disclosed its plans to conduct a 2-stage auction. The auction for qualified new entrants would be held first (by 3Q16), followed by a more general auction in 4Q16. IDA has made minor concessions to facilitate the entry of new players but has also imposed stringent obligations including a ban on spectrum trading and rollout obligations) so as to weed out players with short-term interests.

Singapore spectrum auctions: salient features of regulator's proposal

	Remarks
Reserve price for spectrum	SGD35m
Spectrum allocation	900MHz band (2x10Mhz) and 2300 MHz band (40MHz)
Obligations	Performance bond of SGD20m or 5% of capex
	Prequalification criteria to include technical capabilities and financial position
	Ban on spectrum trading until rollout of nationwide network
	Nationwide network by September 2018
Others	No stipulation for RAN sharing or mandated roaming

Source: IDA

IDA has set aside a dedicated block of spectrum (60MHz in the important 900MHz and 2300MHz bands) for a minimum reserve price of SGD35m (a 55% discount to fees to be paid by existing players) in order to attract new players to the market. After factoring in account performance bonds, we calculate that new players would need to fork out SGD55m at a minimum to participate in the auctions.

Some of the key questions that investors need to ask on these developments are: 1) would a new player enter the market and if so what would be the impact on incumbents' profitability and share prices, and 2) how high could the spectrum fees go if no new players enter the auctions?

New entrant plans and strategy

MyRepublic (Not listed) and Consistel (Not listed), both small firms with roots in Singapore, have indicated a desire to enter the mobile market. MyRepublic is a fixed-broadband player with operations in Singapore, New Zealand and Indonesia. It had 80,000 broadband customers at the end of 2015 and is targeting 300,000 customers by end-2016 by expanding into the Australian market. In Singapore, the company has a presence mainly in the consumer market (2015: 50,000 customers for a 5% market share) and is planning to target the SME and enterprise segments in 2016. Consistel, on the other hand, is a systems integrator with expertise in in-building wireless software solutions.

Both MyRepublic and Consistel have been featured prominently in the local newspapers over the past several months, trumpeting their fundraising plans and strategy to enter the market.

During the course of our recent meetings with MyRepublic, it indicated to us that it is evaluating a bid to enter the Singapore mobile market, mainly because its management

has come around to the view that the company could build a sustainable business by capturing just a 5% market share (vs. the conventional telecoms yardstick of over 15%). The company believes the move will require a total capital commitment of only SGD300m (including vendor financing), as it intends to leverage on the national broadband network infrastructure and its existing cloud-based BSS/OSS systems. As per our understanding, MyRepublic is currently in the process of raising the funds required to enter the race.

MyRepublic and Consistel are pursuing different strategies

In contrast to MyRepublic's plans, Consistel, according to a recent article in the *Business Times,* indicated it plans to raise SGD1bn and has already secured commitments to the tune of SGD400m. The article also stated that the company aims to become the No.2 player in the market over the long run, and would not be content with just 5-10% market share. Overall, Consistel's funding strategy looks like a conventional one, while MyRepublic appears to be content with pursuing a niche, albeit with a more realistic plan than Consistel's.

Singapore Telcos: current price plans

	Entry Plans Subscription price	Remarks	Mid-tier plans Subscription price	Remarks
My Republic	8.0	2G of data	80.0	Unlimited data
M1	15.0	Line only plans with 1G data / 100 mins of voice calls / 600 SMS	82.0	5GB data / 400mins voice calls / 1500 SMS
StarHub	14.0	Line only plan with 300MB data / 100 mins voice calls / 500 SMS	82.9	5GB data / 450mins voice calls / 1500 SMS
SingTel	20.0	3G local data, 2G Wifi	82.9	4GB data / 2GB Wifi / 400 mins voice calls / 1300 SMS

Source: Companies

Assessing risks – MyRepublic a more realistic challenger

Both MyRepublic and Consistel have stepped-up their public relations activities in the recent months to boost their chances of a successful market entry.

However, a check of their financial records as filed with the Accounting and Corporate Regulatory Authority (ACRA) leads us to conclude that Consistel is perhaps too small to be successful in its fundraising efforts. For example, Consistel's 2014 revenue, per its ACRA submissions, is less than 1% of the funds it intends to raise.

MyRepublic, on the other hand, looks like a credible contender, especially considering the quantum of funds it targets to raise (SGD300m). However, the company's size is also small – we estimate its 2015 revenue was around SGD30-50m – relative to its ambitions, especially considering that it has to fund its fledging wired-broadband business as a higher priority. In addition, we believe the company's ability to raise these funds by 3Q16 would likely be complicated by the current difficult state of the capital markets.

Base case – status quo is unlikely to change

We do not think a new player will enter the market; M1 remains a key event trade on this view

We strongly believe that the Singapore mobile market will remain a 3-player market (more than a 90% probability, in our view). Now considering that IDA has proposed spectrum caps for incumbents in the crucial 900MHz band (each player to secure at least one 2x5MHz slot), we think the prospect of a bidding war among incumbent operators is low. Thus, we expect final auction prices to be close to reserve prices (SGD20m for a 2x5MHz slot).

We believe this outcome would serve as a catalyst for M1's share price, as the company has been viewed by the market as being most vulnerable among the 3 operators to new entrant threats. We also like M1's plans to expand in Oman and its effective on-the-ground execution in Singapore.

Quantifying the impact of a successful bid

Below we analyse the impact of MyRepublic's successful entry to Singapore, as we deem it to be a more realistic threat confronting the Singapore telecoms landscape than peer

Consistel. Based on the company's stated plans (break-even market-share level of 5%, and target share of 9%), we calculate that the company could build a sustainable business by pricing its services at around a 20% discount to the prevailing tariffs in the market. This strategy sees the company achieving a 10% ROIC with a market share of 9% by 2021.

Steady state ROIC analysis for new entrant: based on MyRepublic's proposed plans

	SGDm	SGDm
Postpaid	135	244
Prepaid	22	39
Total Revenue	**157**	**283**
EBITDA	39	71
Capex	40	40
FCF	-1	31
Investment	300	300
ROIC	**-0.2%**	**10.2%**
Assumptions		
Market share	5.0%	9.0%
Postpaid ARPU	48	48
Prepaid ARPU	11	11
EBITDA margin	25%	25%
Capex/Sales	25%	14%

Source: Daiwa estimates

Our sensitivity analysis indicates that a successful bid by MyRepublic would imply an erosion of 3pp in market share for each of the incumbents, over the long run. Assuming an additional 2-3% fall in blended ARPU across the operators – tariff pressures would be an inevitable consequence of a fourth operator's entry – we estimate our valuations for the telecom operators could fall significantly, as indicated in the table below.

Profit and valuation impact from a fourth telecom operator

	Current					With New entrant					% change				
SGD m	**CY17E**	**CY18E**	**CY19E**	**CY20E**	**CY21E**	**CY17E**	**CY18E**	**CY19E**	**CY20E**	**CY21E**	**CY17E**	**CY18E**	**CY19E**	**CY20E**	**CY21E**
Revenues															
SingTel - Singapore	8,298	8,416	8,508	8,602	8,699	8,298	8,361	8,429	8,481	8,528	0.0%	-0.6%	-0.9%	-1.4%	-2.0%
StarHub	2,538	2,597	2,641	2,685	2,730	2,538	2,557	2,574	2,566	2,548	0.0%	-1.6%	-2.5%	-4.4%	-6.6%
M1	1,101	1,109	1,126	1,141	1,155	1,101	1,090	1,087	1,068	1,042	0.0%	-1.7%	-3.5%	-6.4%	-9.8%
EBITDA margin (%)															
SingTel	28.5	28.2	28.0	27.9	27.7	28.5	27.9	26.9	26.4	25.9	0 pp	0.3 pp	1.1 pp	1.4 pp	1.8 pp
StarHub	27.4	27.5	28.0	28.1	28.2	27.4	27.0	27.2	26.6	26.6	0 pp	0.5 pp	0.8 pp	1.5 pp	1.7 pp
M1	33.9	34.6	34.6	34.6	34.5	33.9	32.7	32.2	31.0	29.7	0 pp	1.8 pp	2.3 pp	3.6 pp	4.8 pp
Net profit															
SingTel	4,490	4,711	4,985	5,232	5,471	4,490	4,676	4,892	5,107	5,310	0.0%	-0.7%	-1.9%	-2.4%	-2.9%
StarHub	331	340	360	381	387	331	321	329	324	314	0.0%	-5.7%	-8.7%	-14.9%	-18.9%
M1	193	198	204	209	214	193	176	172	158	142	0.0%	-11.0%	-15.6%	-24.6%	-33.5%
Valuation (SGD / share)															
SingTel					4.05					3.99					-1%
StarHub					3.02					2.51					-17%
M1					2.94					2.13					-28%

Source: Daiwa estimates and forecasts

Singapore Telecom Sector: Impact of new entrant on market shares

	Current					With New entrant				
	CY17E	CY18E	CY19E	CY20E	CY21E	CY17E	CY18E	CY19E	CY20E	CY21E
Subscribers ('000)										
SingTel	4,288	4,358	4,428	4,498	4,568	4,288	4,336	4,340	4,318	4,294
StarHub	2,258	2,296	2,335	2,375	2,415	2,258	2,274	2,247	2,195	2,141
M1	2,015	2,049	2,084	2,119	2,155	2,015	2,027	1,995	1,939	1,881
New entrant						0	65	265	539	822
Industry	8,561	8,703	8,847	8,991	9,138	8,561	8,703	8,847	8,991	9,138
Market Share (%)										
SingTel	50.1	50.1	50.1	50.0	50.0	50.1	49.8	49.1	48.0	47.0
StarHub	26.4	26.4	26.4	26.4	26.4	26.4	26.1	25.4	24.4	23.4
M1	23.5	23.5	23.6	23.6	23.6	23.5	23.3	22.6	21.6	20.6
New entrant							0.8	3.0	6.0	9.0

Source: Daiwa estimates and forecasts

Meanwhile, though we deem the probability of Consistel's entry backed by SGD1.0bn of funds to be very low, such a development would pose significant downside risks to our forecasts and recommendations for the sector.

Banks: coping with the rise of fintech

At an MAS and Association of Banks (ABS) conference (on 28 March 2016) on fintech innovation in Singapore, Mr. Sopnendu Mohanty, the Chief Fintech Officer of MAS, distinguished 2 kinds of fintech firms – the ones that provide financial services like crowdfunding or peer-to-peer (P2P) lending (direct competitors to banks), and those that offer technology to financial services firms. Although Mohanty stressed that most fintech firms in Singapore fall into the second category and would be more receptive to partnering with banks to create better products for customers, it is the viability of the first category in Singapore that could pose at first glance an existential threat to the long-term profitability of the sector, in our view.

Crowdfunding and P2P platforms are already taking off

Some crowdfunding platforms in Singapore

Name	URL	Core activity	Target issuers	Regulation
MoolahSense	www.moolahsense.com	debt crowdfunding	SMEs	unregulated
CapitalMatch	www.capital-match.com	debt crowdfunding	SMEs	unregulated
Funding Societies	www.fundingsocieties.com	debt crowdfunding	SMEs	unregulated
New Union	www.newunion.sg	debt crowdfunding	SMEs	unregulated
InvoiceInterchange	www.invoiceinterchange.com	debt crowdfunding (invoices)	SMEs	unregulated
Ourcrowd*	www.ourcrowd.com	equity crowdfunding	startups	unregulated
Fundnel	www.fundnel.com	debt and convertible bonds	SMEs/startups	SFA
FundedHere	www.fundedhere.com	debt and equity crowdfunding	startups	SFA
Capbridge	www.capbridge.sg	equity crowdfunding	high-tech companies	SFA
Crowdo	www.investment.crowdo.com	debt and equity crowdfunding	SMEs/startups	SFA

Source: Daiwa

*Note: Securities and Futures Act; * UOB invested USD10m in global equity crowdfunding platform OurCrowd, and we believe UOB's motivation for the acquisition might be that OurCrowd might provide its high net worth clients an opportunity to invest in start-ups.*

Current regulatory framework

On 16 February 2015, MAS issued a consultation paper setting out proposals on securities-based crowdfunding (SCF). Under the proposals, an SCF financial-return model that involves the offer of securities (debt or equity) would be subject to regulation in Singapore. The 2 most popular forms of crowdfunding globally, donation-based crowdfunding and reward-based crowdfunding, are not subject to securities regulation.

The consultation paper highlighted that notwithstanding the potential benefits of SCF to the financing landscape for start-ups and SMEs, there are high risks associated with such investments including: a) loss of capital, b) lack of liquidity, c) fraud, and d) platform failure or closure.

MAS has proposed some basic requirements for securities-based crowdfunding

To strike the right balance between facilitating the development of SCF in Singapore and ensuring sufficient safeguards for investors, MAS has proposed measures to facilitate SCF only to accredited investors (those with net-personal assets exceeding SGD2m or income in the preceding 12 months of at least SGD300k) and institutional investors. MAS has also proposed lowering certain licensing requirements for SCF platform operators (including lowering the base capital requirement to SGD50k and removing the requirement of maintaining a security deposit of SGD100k with MAS) that do not handle, hold or accept customer monies, assets or positions, and do not act as a principal in transactions with investors. MAS clarified that offers made through the SCF platform could rely on the prospectus exemptions under the relevant sections of the Securities and Futures Act (SFA) to make offers without a prospectus. To avoid mass solicitation and remain in compliance with the advertising restrictions in the SFA, the SCF offers of securities should be done through 'restricted access platforms' that require users to register their identities and access the offer content through a password.

The feedback period for the consultation paper ended on 18 March 2015 and the market is still awaiting MAS's responses.

MAS is trying to encourage the development of a fintech ecosystem with limited regulation as a starting point

We believe remarks made by Ravi Menon, the managing director of MAS, in a forum (FinTech-Harnessing its Power, Managing its Risks) on 2 April 2016 shed some light on MAS's current stance toward fintech regulation. MAS is likely to take a risk-based approach to nurture innovation in an unregulated sector because introducing regulation prematurely could stifle innovation. MAS will apply a 'materiality and proportionality test', ie, when the risk posed by a new technology becomes material, then regulation would be enforced, with the regulation proportionate to the risk posed. MAS might, therefore, allow crowdfunding to evolve and develop even though it were not well regulated. Menon added that MAS would actively promote the fintech ecosystem and seek to harness its potential for good by engaging fintech firms and allowing existing financial institutions to experiment with new technologies in a 'safe environment' without having to seek MAS's permission to try new things.

MoolahSense: our observations

After assessing some of the peer-to-peer (P2P) lending portals, we provide our initial reaction to one of the hottest new industries in the fintech space that is already operational in Singapore. We provide our observations on the MoolahSense lending platform, one of the biggest in Singapore, and the P2P and crowdfunding lending model in general.

Enticing high interest rates on SME loans

MoolahSense is a P2P lending platform based out of Singapore that connects SMEs with lenders. We believe the most attractive feature of the MoolahSense platform from the lender's perspective is that the borrowing rates (ranging from a teens percentage up to around 20%) per year for SME loans, most of which are for the purpose of working capital) are attractive.

Why would SMEs borrow at such rates?

However, these rates are not particularly attractive to the borrower, in our opinion. Nevertheless, these high borrowing costs could be worthwhile if the credit approval process (or lack thereof) of the platform allows these SMEs to get immediate access to capital. Indeed, judging by the relatively short period of time that some campaigns have reached full funding by the MoolahSense investors, in a matter of hours for some campaigns, there could be a real economic reason (ie, timeliness) for SMEs to pay high rates for their loans. Of course, the other rational for some SMEs to tap into this funding platform regardless of borrowing cost could be that they have little intention of paying back their loan. This is an example of the risk of fraud as highlighted in MAS's consultation paper.

The pricing of risk

Banks have the huge advantage of credit data

We believe one issue (and perhaps the core issue) with crowdfunding or P2P lending is the pricing of risk (the appropriate borrowing cost for the loan). The Singapore banks have a comprehensive credit history (spanning decades and across a spectrum of industries) on their SME loan book, and conduct their lending business in highly competitive market which includes the presence world-class banks. We believe it is safe to assume that the banks can price any SME loan better than any investor of a P2P or crowdfunding platform, which prices the loan through a bidding process (an online auction for a product such as a car or a hotel stay is efficient because most bidders have a good sense of the value of these products; but valuing an SME loan is an entirely different proposition).

Transparency required on defaults

As these platforms are only at the start-up stage globally, it is natural to expect the pricing (borrowing cost) of the first several (or even hundred) SME loans to be inaccurate, because only through credit defaults and the transparent disclosure of the default histories of bad loans can investors get a better picture of the inherent riskiness of these loans and make more accurate bids in future campaigns. Defaults are useful and even essential from a credit analysis perspective, but their disclosure could be perceived as bad publicity for the platform. We do not know how these platforms will handle the reporting of defaults, which are essential to building up a credit history of these SME loans, but could alienate investors (those that invested in a bad loan would lose most if not all of their investment) or potential investors.

Bilateral agreements

MAS licence not required

MoolahSense clearly states on its website that it is not currently regulated by MAS (it is not required because the platform does not accept 'deposits' [it is not a bank] and does not lend to individuals [it is not a moneylender] but only to corporates), and although the contract notes (between the business issuer and the investors) are enforceable in Singapore, there is the risk that the business issuer will default or declare insolvency (to participate in MoolahSense, the business issuer must be a Singapore registered private limited or limited liability partnership entity; the minimum requirements are no outstanding court judgement, 1 year of accounts filed with ACRA and minimum annual turnover of SGD100k; in addition all requests require a personal guarantee [it is not clear if it can be from any guarantor or only from the business owner]). In the case of a default, it appears that the investors would have to incur the legal costs of trying to recover their capital from the issuer.

We note that these lending platforms are not traditional financial intermediaries, such as banks, but more facilitators between lenders and investors. They do not appear to be as efficient as banks in enforcing debt recovery as they probably lack scale and credit diversification.

Are they a real threat to banks?

The threat does not look significant, but still too early to tell

We do not think these lending platforms pose a threat to the banks yet. Aside from regulatory uncertainty, we see no evidence that these platforms can price loans better than banks, so the only way they can compete head-to-head with banks would be to under-price the borrowing rates offered by banks. This is certainly not the case for the campaigns funded to date by the P2P SME lending platforms in Singapore. The loans appear to be in the unsecured high borrowing cost and high risk segment, in which the banks have never been active. We remain watchful of this rapidly changing market segment.

Daiwa's view: key sectors and stocks

Daiwa detailed sector stock preferences

Name	Ticker/Sector Weight	Index weighting	Daiwa recommended weighting	Remarks
Banks and Financial services	**Overweight**	**36.9**	**37.9**	
Oversea-Chinese Bank	OCBC SP	12.5		Prefer DBS, followed by UOB
DBS Group	DBS SP	11.8		
United Overseas Bank	UOB SP	9.9		
Singapore Exchange	SGX SP	2.8		
Real Estate	**Overweight**	**19.4**	**20.4**	
Hongkong Land	HKL SP	4.1		Neutral REITS, OW developers (CIT, HKL, CAPL)
CapitaLand	CAPL SP	3.4		Prefer SGREIT and CDREIT among REITs
Global Logistic Properties	GLP SP	2.6		
City Developments	CIT SP	2.2		
UOL Group	UOL SP	1.2		
CapitaLand Mall Trust	CT SP	2.5		
Ascendas REIT	AREIT SP	2.2		
CapitaLand Commercial Trust	CCT SP	1.3		
Telecommunications	**Neutral**	**13.0**	**13.0**	
Singapore Telecommunications	ST SP	12.1		Prefer SingTel, M1 over StarHub
StarHub	STH SP	0.9		
Consumer Services	**Neutral**	**12.0**	**12.0**	
Singapore Press Holdings	SPH SP	2.8		Prefer land transport over casino and retail sectors
ComfortDelGro	CD SP	2.6		Prefer out-of-index names like Sheng Siong, Breadtalk
Singapore Airlines	SIA SP	2.5		
Genting Singapore	GENS SP	2.2		
Jardine Cycle & Carriage	JCNC SP	1.9		
Industrial Goods & Services	**Neutral**	**6.0**	**6.0**	
Singapore Technologies	STE SP	2.2		Prefer MRO plays over China ship builders
Hutchison Port Holdings Trust	HPHT SP	1.5		
SATS	SATS SP	1.1		
Yangzijiang Shipbuilding	YZJSGD SP	0.9		
SIA Engineering	SIE SP	0.4		
Oil & Gas	**Underweight**	**5.2**	**4.2**	
Keppel Corp	KEP SP	3.5		Prefer Keppel over SMM
SembCorp Industries	SCI SP	1.1		
Sembcorp Marine	SMM SP	0.6		
Consumer Goods	**Underweight**	**7.5**	**6.5**	
Thai Beverage	THBEV SP	3.2		
Wilmar International	WIL SP	3.1		
Golden Agri-Resources	GGR SP	1.2		

Source: Bloomberg, Daiwa

Banks: Overweight as asset quality concerns appear overblown

We believe asset quality will hold up well through 2016

While the global macro picture continues to be fuzzy, with conflicting signals sent by the Fed over the pace of interest-rate increases, our base case still calls for the Fed to raise interest rates in 2016 in addition to a stabilisation of oil prices at around the USD40/bbl level, along with a gradual non-disruptive slowdown in regional economies.

Under these circumstances, we have a more subdued outlook for NIM expansion, as we now assume an annual increase of 25bps to SIBOR each year, from 50bps each year previously. Our current asset quality assumptions have not changed much from 6 months ago despite the headlines about asset quality deterioration and credit costs, and the market sell-off due to these concerns. Overall, we forecast sector-average EPS growth of 0% YoY for 2016, gradually improving to 7% YoY for 2017 and 10% YoY for 2018.

Even after the price volatility YTD, we see good value in the sector as the stocks are still trading roughly 1-1.4SD below their long-term mean PBRs and 0.6-1SD below their long-term mean PERs. The positive catalyst could be a benign asset-quality deterioration scenario taking shape.

Our top pick is DBS as we believe its YTD underperformance (vs. peers and the FSSTI) is overdone and the YTD stability of the CNY:USD (positive for the China trade-loan book) has removed a tail risk. We like UOB next and believe it has the most upside to EPS if the asset quality trend remains benign. OCBC has been the YTD outperformer and looks highly defensive, but we see stronger EPS growth for DBS and UOB. We reiterate our Overweight stance on the sector.

Real estate sector: Overweight (switch from REITS to developers; REITs downgraded to Neutral)

Within the real-estate sector, we are lowering our weighting for the S-REITs to Neutral (previously Overweight) while raising the developers to Overweight (from Neutral).

We see the property-developer sector as now offering deep value (17-51% discounts to their end-2015 NAVs) and believe that the removal of some of the tail risks, such as possible government levies on unsold units, associated with the sector could serve as a re-rating catalyst.

Although the government stated during the March Budget discussions that it is too early to relax the property cooling measures, we believe some minor adjustments, such as tweaks to the buyer and seller stamp duties, are likely in 2H16. This is because we continue to see a supply-demand mismatch for the private residential market. For example, we estimate the average annual supply to be around 15,500 units over 2016-18 versus average annual demand of around 10,000.

While we believe a relaxation could boost sales and provide a short-term reprieve for developers, we are unconvinced of the long-term benefits as we would expect the government to move aggressively to unwind more pertinent policy measures currently in place (loan-to-value ratios for example).

Among the property developers, we continue to favour City Developments (City Dev) as it stands to benefit the most from a relaxation in property cooling measures. We also like Hongkong Land and CapitaLand, the latter for its recurring income growth potential.

The REITS have performed well YTD; switch into deep-value plays among the property developers

Meanwhile, the YTD performance of the S-REIT sector has held up well and even though the 12-month forward DPU yield has fallen by about 50bp to 6.5% YTD, the 10-year SGD yield has fallen by about 60bp to 2.0% YTD, so the yield spread has expanded to an enticing 4.5% (vs. its 10-year average of 3.6%).

Accordingly, we downgrade our rating to Neutral and remain highly selective after the YTD outperformance. We do not see any attraction in office REITs as we believe the sector fundamentals have deteriorated YTD given the lack of pre-leasing for the new supply in 2016-17. We believe the smaller-cap REITs could outperform for the rest of the year given the strong YTD outperformance of the large-cap and liquid names. For the large-cap REITs, we see some remaining value in Ascendas REIT, and our current preferences are in the smaller-cap retail Frasers Centerpoint Trust and Starhill Global REIT (SGREIT) and hospitality (CDL Hospitality REIT [CDREIT]) segments.

Telecoms: Neutral

In our view, the threat posed by new entrants is unlikely to materialise and we believe that such a development would in any case support M1's share price, which is the pure play mobile operator. We have a preference for SingTel over StarHub, given the former's diversified businesses and the latter's weak fundamentals.

Dividend yields and spreads over 10-year bond yields

Forward Dividend Yield (%)	2009	2010	2011	2012	2013	2014	2015	1Q16	Current
M1	9.3	6.2	5.8	7.7	5.8	4.2	6.5	6.8	6.8
StarHub	9.3	7.6	6.9	5.3	4.7	4.8	5.4	6.0	6.0
Singapore Telecom	8.3	5.2	5.4	5.1	4.8	4.8	5.4	5.2	5.3
Ascendas Real Estate Investment Trust	6.0	6.6	7.5	6.0	6.6	6.6	7.3	7.0	7.1
Cambridge Industrial Trust	11.0	8.1	10.1	7.4	7.3	7.0	8.0	8.1	8.2
Mapletree Logistics Trust	8.4	1.8	8.1	6.4	7.1	6.3	7.6	7.5	7.5
Mapletree Industrial Trust	0.0	7.8	8.6	7.3	7.9	7.3	7.3	7.0	7.1
CapitaLand Commercial Trust	6.7	5.0	7.6	4.8	5.8	4.9	6.5	6.0	6.1
Keppel REIT	6.3	5.4	9.4	6.1	6.1	5.6	7.3	6.9	6.8
Suntec REIT	7.3	6.6	8.8	5.6	6.1	5.1	6.3	5.8	5.9
Ascott Residence Trust	6.6	7.2	9.2	6.9	6.8	6.3	7.1	7.9	7.7
CapitaLand Mall Trust	5.1	4.8	5.6	4.8	5.7	5.5	5.8	5.4	5.3
CapitaLand Retail China Trust	6.6	7.0	8.3	5.5	7.4	6.6	7.1	7.3	7.4
CDL Hospitality Trusts	5.8	5.3	7.3	5.8	6.7	5.8	7.6	7.7	7.7
Frasers Centrepoint Trust	5.9	5.5	7.0	5.5	6.4	6.1	6.3	5.9	5.9
Starhill Global REIT	7.4	6.6	7.8	6.4	6.4	6.4	6.8	6.5	6.5
Accordia Golf Trust						7.7	12.1	10.9	11.0
Sector average									
Telecoms	**9.0**	**6.3**	**6.0**	**6.0**	**5.1**	**4.6**	**5.8**	**6.0**	**6.0**
Large Cap REITS	**6.3**	**5.7**	**7.4**	**5.3**	**6.1**	**5.5**	**6.5**	**6.0**	**6.1**
Average - All REITS	6.4	6.0	8.1	6.0	6.6	6.2	7.4	7.1	7.2
Spread over 10-year bond yield									
Telecoms	**6.3**	**3.6**	**4.4**	**4.7**	**2.5**	**2.3**	**3.2**	**4.2**	**4.2**
Large-cap REITS	**3.6**	**3.0**	**5.8**	**4.0**	**3.5**	**3.3**	**3.9**	**4.2**	**4.2**
All REITS	3.7	3.3	6.5	4.7	4.1	3.9	4.8	5.3	5.3

Source: Daiwa forecasts

Consumer Services and Industrials: Neutral

Land transport and MRO segments are pockets of strength

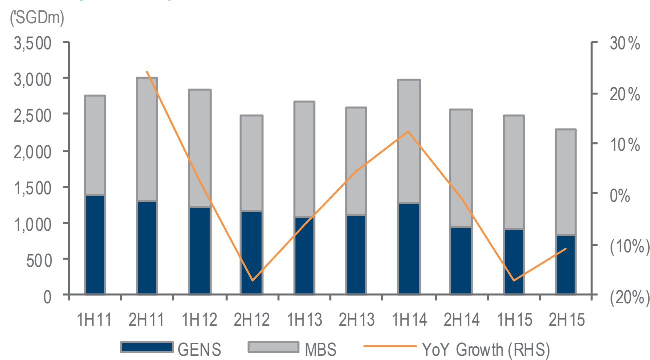
The index constituents within the consumer services and industrial sectors offer varied business and geographic exposure, thus giving investors room to generate alpha via relative stock picking.

We have a preference the land transport (CDG) and MRO names compared to the casino, retail and ship building sectors. Among the FSSTI index constituents, both ST Engineering and SIA Engineering are exposed to the aerospace MRO segment, while the former also has exposure to Singapore Government's spending on defence and Mass Rapid Transit (MRT) electronics systems.

The outlook for the Singapore Gaming Sector looks challenging, as sequential quarterly gaming revenue trends continue to remain on a decline due to the prolonged slowdown in Macau. Affin Hwang analyst Lim Tee Yang sees high bad debt provisions and a strong SGD relative to ASEAN currencies as additional headwinds.

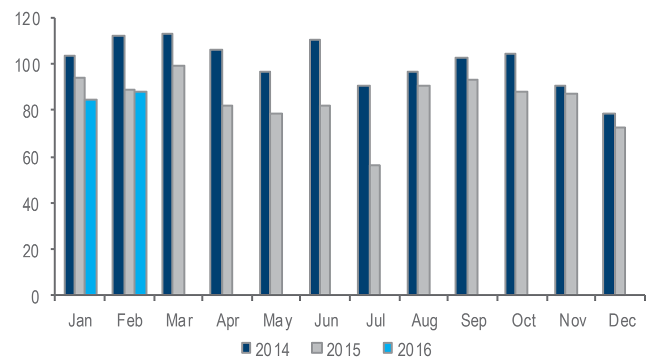
Meanwhile, Jardine Cycle & Carriage is an indirect play on the Indonesia Automotive Sector as it derived 92% of its 2015 earnings from its 50% shareholding in Astra International (ASII). Bahana analyst Leonardo Henry Gavaza has negative outlook on the sector due to ongoing fight for market share, which is likely to be exacerbated by continued soft farmer incomes due to low commodity prices. February vehicle sales data suggest Astra's market share was largely flat at 47% (Jan-16: 46.6%; Feb-15: 49.0%) as sales volumes (41.5k units; -4.7% YoY) particularly disappointing for Avanza. We maintain our Neutral stance on the consumer services and industrial sectors.

Gaming industry revenue (SGDm)



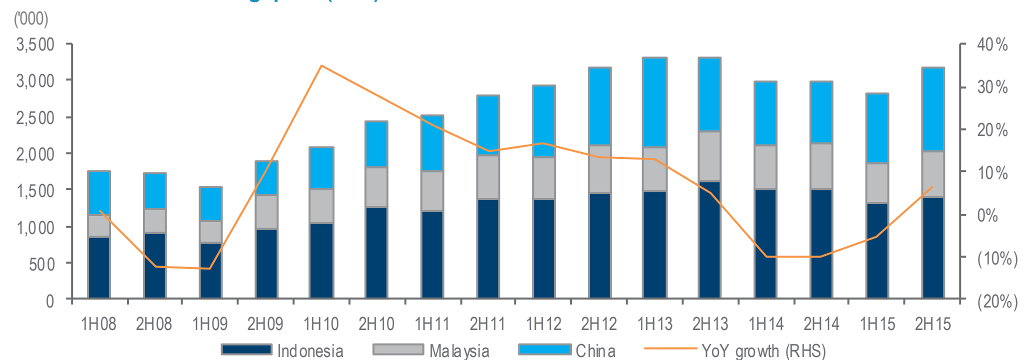
Source: Companies, Affin Hwang; GENS is Genting Singapore and MBS is Marina Bay Sands

Indonesia automotive: domestic 4W sales ('000 units)



Source: Bloomberg

Tourist arrivals into Singapore ('000)



Source: CEIC, Singapore Tourism Board

Consumer goods: Underweight

The consumer goods sector in Singapore essentially provides exposure to the palm-oil and Thai consumer segments.

The recent uptrend in crude palm oil (CPO) prices may be one reason behind the YTD surge in the share prices of plantation stocks such as Golden Agri Resources (GGR SP, not rated) However, Affin Hwang's plantation analyst, Ong Keng Wee, (see *Sustained bullishness unlikely*, 22 March 2016) sees other moderating factors including a potential yield recovery, a shortfall in biodiesel production and a narrower soybean oil premium that could cap the recent uptrend in CPO prices, which are driven by El Nino phenomenon.

Shares of Thai Beverage have performed well YTD due to a surge in beer sales (4Q15: up 50% YoY), driven by gains in market share (38% in 4Q15 vs 30% in 3Q15). However, Thanachart's economist Kampon Adireksombat believes the recovery in Thailand's consumer sector remains slow given falling farm income, slow credit growth, and stubbornly high household debt. However, the downside risk is limited by active government support, such as tax rebates for middle-class income groups and village fund programmes (micro financing) for farmers (see *More stimuli to come*, 31 March 2016). Given this backdrop, we do not see a large uptick in demand occurring over the next 12 months. We reiterate our Underweight stance on the consumer goods sector.

Oil & Gas: Underweight

Despite the recent recovery in share prices in the sector, on a rally in oil prices (from USD28 in mid-February to around USD40 currently) we keep our Underweight rating on the oil & gas sector. The supply-demand imbalance remains a pertinent issue for rig builders and owners alike in the current weak capex environment and we do not foresee this situation being rectified to any great degree over the next 12 months.

Keppel Corp remains our preference over SMM given the former's diversified earnings base. We believe SMM is at risk of falling short of market expectations for new order wins within the production segment (ie, FPSO, FLNG orders), in addition to downside risks from client order deferments or cancellations. We see a potential cash flow shortfall for the company to the tune of SGD900m-SGD1bn due to its greater working capital requirements to complete existing projects on hand, which could then necessitate a rights issuance if net gearing is to be kept below 1.0x.

What are the risks to our view?

A fall in interest rates or any steep deterioration in non-performing loans for the banks would represent 2 key risks to our call for investors to Overweight the banks and property developers. Meanwhile, a sharp recovery in oil and/or CPO prices could undermine our underweight stance on the oil & gas and consumer goods sectors. In 1Q15, banks stocks were sold off even though the quarterly results revealed no significant worsening of asset quality. We could see a replay of this episode if China's slowdown or low oil price concerns once again take hold in the market.

Under this scenario, we would expect dividend yield plays to perform relatively better than other sectors.

Daiwa's Singapore coverage: 4Q15 results summary

Company name	Ticker	Rating	Actual 4Q15 EPS/DPU (vs. Daiwa)	4Q15 results (vs. Daiwa)
Property Developers (David Lum/Shane Goh)				
City Developments	CIT SP	Buy	Above	PBT was above forecasts due to the launch of its second profit participation security
Frasers Centrepoint	FCL SP	Outperform	Below	Revenue and PBIT were below forecasts due to timing difference in sales recognition of Australian residential units
OUE	OUE SP	Buy	Above	Consolidation of OUE Commercial REIT was earnings-accretive, but there was a further SGD23m impairment on Twin Peaks
CapitaLand	CAPL SP	Buy	In-line	Higher residential sales recognition in China offset a subdue environment in Singapore residential
Banks (David Lum)				
DBS Group Holdings	DBS SP	Buy	In-line	Strong trading income offset slightly higher-than-expected operating expenses and credit costs; NPL ratio was flat QoQ and YoY at 0.9%
Oversea-Chinese Banking Corporation	OCBC SP	Buy	In-line	Stronger-than-expected trading and insurance income offset higher-than-expected operating expenses and allowances; NPL ratio was flat QoQ at 0.9%
United Overseas Bank	UOB SP	Buy	Below	Higher-than-expected operating expenses and credit costs; NPL ratio increased QoQ from 1.3% to 1.4%
Telecom (Rama Maruvada)				
M1	M1 SP	Buy	Below	Higher-than-expected depreciation and taxes
Singapore Telecom	ST SP	Hold	Below	Weakness in associates, and revenue expectations from acquisitions were weaker than our forecasts
StarHub	STH SP	Underperform	Above	Lower-than-expected taxes on Group tax reliefs; Core EBITDA performance was below forecasts
Offshore Marine (Royston Tan)				
Ezion Holdings	EZI SP	Hold	Below	Below our forecast due to impairments made on assets
Pacific Radiance	PACRA SP	Sell	Below	Below our forecast due to lower-than-expected utilisation of vessels
Vard Holdings	Vard SP	Sell	In-line	Net profit in line
SembCorp Industries	SCI SP	Underperform	Higher	Adjusted utilities earnings higher than expected due to outperformance in China
SembCorp Marine	SMM SP	Sell	Below	Below our forecast due to larger-than-expected provisions made on existing contracts
Cosco Corp Singapore	COS SP	Sell	Below	Below our forecast due to larger-than-expected provisions/ impairments on assets
Keppel Corporation	KEP SP	Hold	In-line	Net profit in-line
Yangzijiang Shipbuilding	YZJSGD SP	Underperform	Below	Below our forecasts due to lower revenue recognition for shipbuilding
REITS (David Lum)				
Accordia Golf Trust	AGT SP	Buy	Above	Operating performance in line with no major weather-related disruptions; announces 100% payout policy for FY16
CapitaLand Mall Trust	CT SP	Hold	Above	Revenue in line (rental reversion of about 3%), lower than expected utility expenses and borrowing costs
Frasers Centrepoint Trust	FCT SP	Outperform	Above	Lower-than-expected utility and maintenance costs; strong rental reversion of 13.7%
Mapletree Industrial Trust	MINT SP	Outperform	Above	Occupancy rate and rental reversions improved QoQ and operating expenses were again lower than expected
Starhill Global REIT	SGREIT SP	Outperform	In-line	Wisma Atria retail NPI soft due to tenant-mix reconfiguration; otherwise, Singapore performance was stable
Ascendas Real Estate Investment Trust	AREIT SP	Outperform	Above	Phased Australia portfolio contribution was stronger than expected; CEO retires
Ascott Residence Trust	ART SP	Outperform	Above	DPU helped by lower-than-expected finance costs, deferred-tax expense, but gross profit was below forecast due to weakness in China, Singapore
Cambridge Industrial Trust	CREIT SP	Outperform	Below	DPU below forecast due to implementation of new policy to pay all management fees in cash (instead of 50% in units)
CDL Hospitality Trusts	CDREIT SP	Buy	Below	Weaker-than-expected performance from overseas operations (Maldives, Australia and New Zealand)
Keppel REIT	KREIT SP	Underperform	Below	Weaker-than-expected performance from associates and some Australian properties
Mapletree Logistics Trust	MLT SP	Outperform	Below	NPI below forecast on higher expenses from multi-tenanted property conversions
Suntec REIT	SUN SP	Underperform	Above	Delay in Park Mall divestment led to stronger-than-expected operating performance; capital top-up was still generous
CapitaLand Commercial Trust	CCT SP	Underperform	In-line	Weaker-than-expected NPI performance (Capital Tower, One George Street) offset by dividends from Raffles City
CapitaLand Retail China Trust	CRCT SP	Hold	Above	Lower-than-expected tax and other items
Transport (Jame Osman)				
ComfortDelGro	CD SP	Buy	In-line	Operating margin impacted by weaker-than-expected performance of rail segment, owing to higher start-up costs for DTL2 & 3
SMRT	MRT SP	Underperform	Above	Rail segment performance surprised positively due to higher government grants booked and lower fuel and utilities costs
Consumer/Healthcare (Jame Osman/Shane Goh)				
BreadTalk Group	BREAD SP	Outperform	Below	Net profit below forecast due to higher-than-expected taxes and one-off costs relating to closure of underperforming outlets
OSIM International	OSIM SP	Hold	Below	Weaker-than-expected demand for its lifestyle products as well as start-up costs relating to the opening of new TWG Tea outlets
Raffles Medical Group	RFMD SP	Outperform	In-line	Revenue higher-than-expected due to stronger contribution from International SOS acquisition (completed Oct 2015)
Sheng Siong Group	SSG SP	Outperform	In-line	Net profit in line, weaker-than-expected food-ingredient revenue growth (-20.2%) was the key disappointment
Super Group	SUPER SP	Underperform	Above	Net profit below expectations due to higher taxes, weaker-than-expected food-ingredient segment sales

Source: Daiwa

Banks: no big deterioration in asset quality

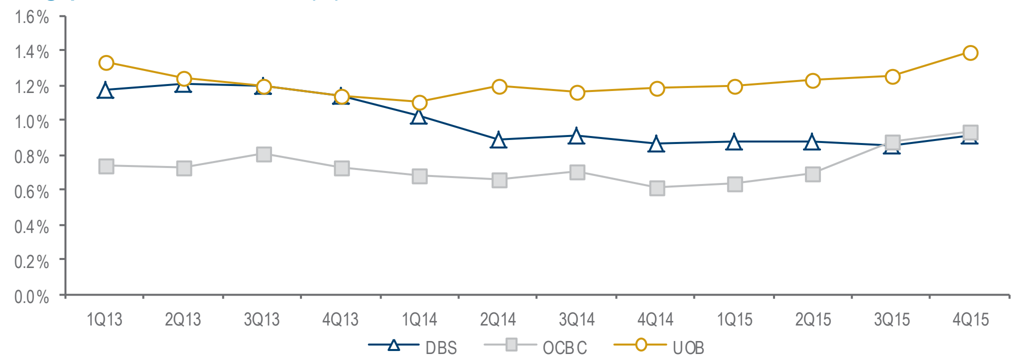
David Lum (65) 6329 2102
(david.lum@sg.daiwacm.com)

4Q15 operational review

NPLs: rising but well under control

Looking at the complete data for 2015, we can see a clear trend of a gradual rise in the NPL ratio for the sector in 2015. This upward trend was also evident in 4Q15, with the NPL ratio for UOB rising slightly QoQ and the NPL ratios for DBS and OCBC remaining flat QoQ. However, the uptick in the NPL ratios is far from alarming, in our view, and they are still near their all-time lows. Relative to the overall economic softness (slowing GDP growth but not in recession territory) in Singapore and Asia in 2014-15, the gradual increase in the sector's NPL ratio is no surprise at all, in our opinion.

Singapore banks: NPL ratios (%)

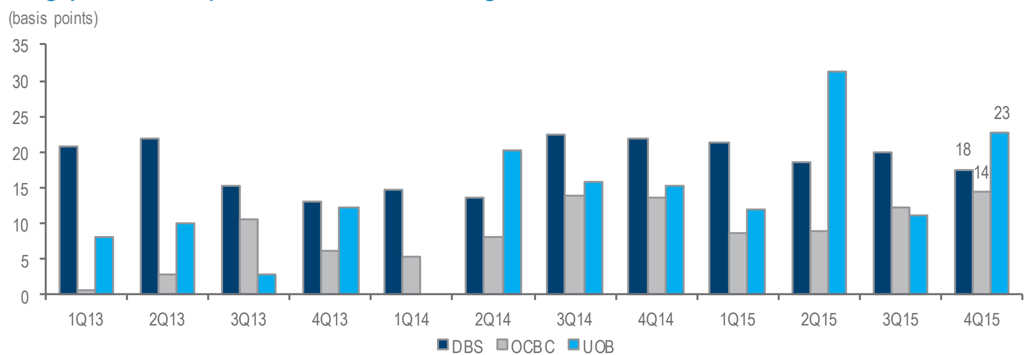


Source: Companies

Credit costs consistent with the trend in the NPL ratios

We can make similar observations on the credit-cost trend, in particular, the ratio of specific allowances (provisions) to average loans. This has been trending up since the start of 2014, but (aside from UOB's charges in 2Q15 and 4Q15) these charge-off rates are consistent with the stable trend in their NPL ratios.

Singapore banks: specific allowances to average loans

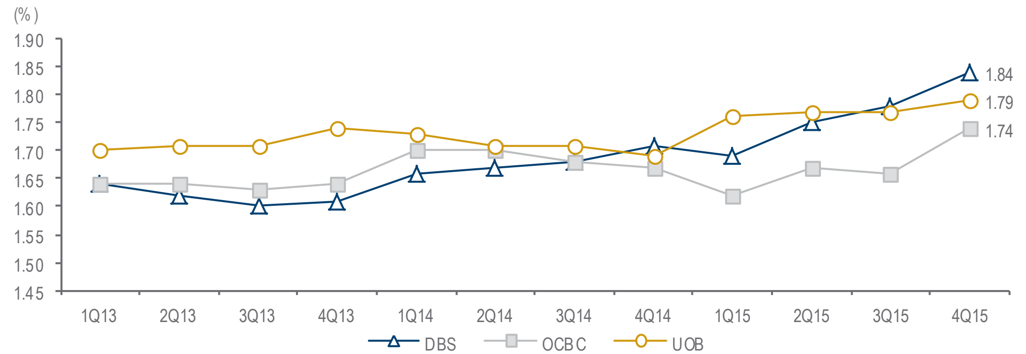


Source: Companies

NIM improvement was the bright spot for 4Q15

NIMs continued to gain traction in 4Q15. The largest QoQ increases came from DBS (+6bp) and OCBC (8bp), driven by factors including a high Sibor during the quarter, the further paring down of (lower-margin) China trade loans and a reduction in higher-cost funding. Asset-quality concerns by the market (and not all evident in their 3Q15 or 4Q15 results, in our opinion) have overshadowed the strong recovery in their NIMs and net-interest income growth.

Singapore banks: NIM trend (%)

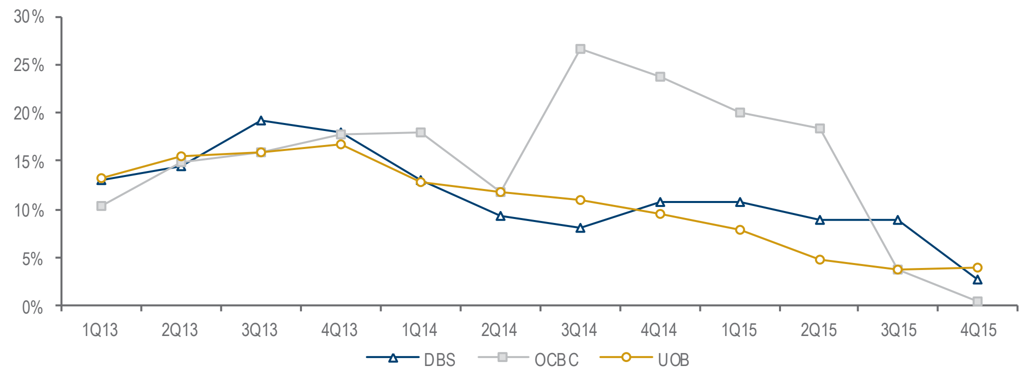


Source: Companies

Singapore lending continues to slow

Loan growth slowed considerably YoY for 4Q15, a reflection of the slowing economic growth in Asia and Singapore, and the sharp drop-off in trade loans to China. With the SGD as their reporting currency, the banks' loan growth also incorporated a relatively high volatility in exchange rates for 2015, with the SGD strengthening against most other ASEAN currencies but weakening against the USD.

Singapore banks: Singapore loan growth (%)



Source: Companies

4Q15 scorecard

The 4Q15 earnings (PATMI) of DBS (+20% YoY) and OCBC (+21% YoY) exceeded the Bloomberg consensus and were all-time highs. UOB disappointed on higher-than-expected operating expenses and to a smaller extent higher-than-expected credit costs.

Singapore banks: key 4Q15 trends and YoY growth

		DBS	OCBC	UOB
Net profit (PATMI)	(SGDm)	1,002	960	788
Daiwa forecast	(SGDm)	1,033	953	968
Variance		-3%	1%	-19%
Bloomberg consensus	(SGDm)	965	877	788
Variance	(%)	4%	9%	0%
Net-interest margin	(%)	1.84	1.74	1.79
QoQ change	bps	6	8	2
Loan-growth	(YoY)	2.8%	0.3%	4.0%
Loan-growth	(QoQ)	-0.7%	-1.0%	2.0%
NPL ratio	(%)	0.91	0.93	1.39
QoQ change	pct pt	0.05	0.06	0.13
Total credit cost	bps	26	28	31
4Q15 YoY change		**DBS**	**OCBC**	**UOB**
Net-interest income	(%)	10.8	5.0	9.3
Non-interest income	(%)	19.4	26.0	17.7
Total income	(%)	13.2	12.8	12.4
Operating expenses	(%)	10.3	5.6	19.8
Operating profit	(%)	15.9	18.8	6.8
Total allowances	(%)	17.1	25.3	14.5
PATMI	(%)	19.6	21.4	0.3

Source: Companies

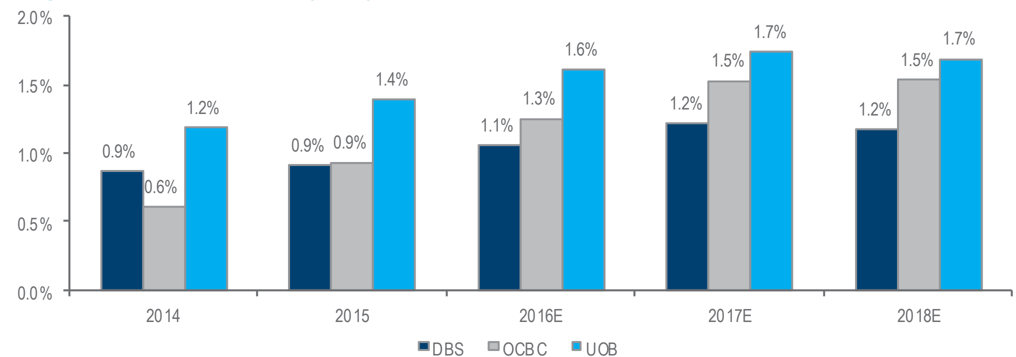
Daiwa Capital Markets

Outlook: weak EPS growth in 2016, before recovering in 2017-18

Our EPS forecasts, which on average are about 4% higher than those of the Bloomberg consensus for 2016 and 2017, assume that the NPL ratios will continue to deteriorate gradually YoY in 2016 and 2017. By the end of 2017, we expect the NPL ratio to peak before trending down in 2018. Our forecasts assume further stress in their asset quality as some individual borrowers in the most at-risk segments of their portfolios (oil & gas services, commodities, and China) could face increased difficulty in meeting their loan obligations, but we do not expect a financial crisis.

Our NPL forecasts

Singapore banks: NPL ratio by the year-end



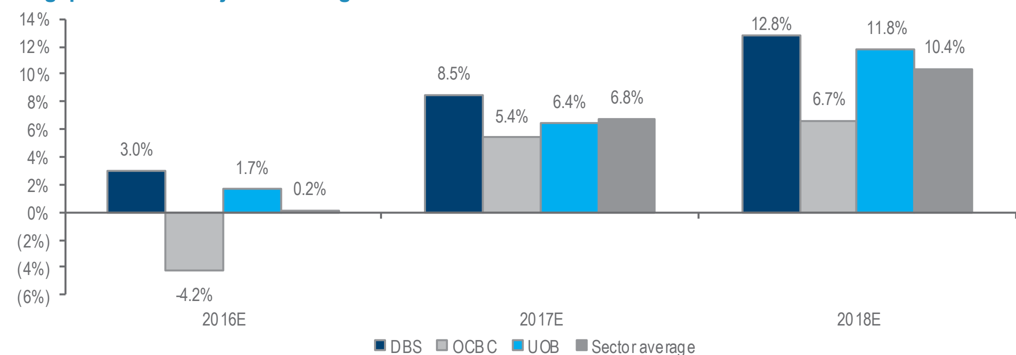
Source: Companies, Daiwa forecasts

Overall, we expect flat YoY sector-average EPS growth in 2016 due to the high earnings base in 2015 and rising credit costs before an EPS recovery in 2017-18 (sector average of 7% YoY in 2017E and 10% YoY in 2018E). We expect YoY declines in credit costs in 2017 and 2018, and for this to be the major driver of an EPS recovery in 2017-18.

Our core assumptions for 2016-18 include a 25bp p.a. increase in SIBOR leading to annual NIM increases of 0-5 bps each year and YoY loan growth of 2-5%. We have assumed total credit costs of 28-36bps for 2016, before moderating to 22-25bps in 2018.

DBS's EPS growth set to outpace that of the sector and its peers for 2015-17

Singapore banks: adjusted EPS growth



Source: Daiwa forecasts

Company ratings

We reiterate our Buy ratings on DBS, UOB and OCBC, with unchanged warranted equity valuation method-derived 12-month target prices of SGD20.30, SGD24.60 and SGD11.00, respectively.

Key sector risks

The risks to our positive sector rating would include a worse-than-expected deterioration in the banks' loan exposure to ASEAN and China, any delays in interest-rate hikes, or Asia and Singapore entering a severe recession.

Developers: finding respite overseas

David Lum (65) 6329 2102
(david.lum@sg.daiwacm.com)
Shane Goh (65) 6499 6546
(shane.goh@sg.daiwacm.com)

4Q15 results review

Results for the quarter were soft, with 3 developers under our coverage recording YoY declines in net profit, with only 1 seeing an improvement in the bottom line.

Singapore developers: 4Q15 results summary

	Revenue			PATMI		
(SGDm)	4Q15	4Q14	% YoY	4Q15	4Q14	% YoY
CAPL	1,740	1,518	15%	248	409	-39%
CDL	855	847	1%	410	385	7%
FCL	672	1,072	-37%	99	187	-47%
OUE	129	103	25%	80	127	-37%

Source: Companies
Note: FCL's 1QFY16/1QFY15 figures used as its year-end is 30 September

CapitaLand

CapitaLand was affected by lower revaluation gains and the absence of one-off gains from the Westgate Tower sale

CapitaLand's 4Q15 net profit fell by 39% YoY to SGD248m due to lower revaluation gains, the absence of one-off gains from the Westgate Tower sale in 4Q14 and impairment charges on certain unsold residential units in Singapore and China. Revaluation gains were related mainly to CapitaGreen, which obtained its temporary occupation permit in 4Q14. Impairment charges in Singapore were booked for a few projects, according to management, while one development (Tianjing International Trade Centre) formed the bulk of provisions in China.

City Dev

Sale of 3 commercial properties lifted City Dev's net profit

City Dev's 4Q15 revenue and net profit rose by 1% and 7% YoY to SGD855m and SGD410m, respectively, as proceeds from the sale of assets mitigated impairment charges. In December 2015, City Dev sold 3 commercial properties to a JV with Alpha Investment Partners through the launch of its second profit participating security (PPS), which contributed SGD314m to City Dev's profit before tax for 4Q15. The company also recorded impairment charges relating to 2 newly acquired hotels, which weighed on the bottom line.

Frasers Centrepoint (FCL)

Hospitality contributions mitigated soft development sales for FCL

FCL's revenue and net profit fell by 37% and 47% YoY in 1Q16, attributable to softer sales recognised from its development portfolio, partially mitigated by contributions from Malmaison Hotel du vin (MHDV) Group of 29 hotels, acquired in June 2015. In Singapore, FCL saw the absence of sales from Holland Park and Flamingo Valley, as well as lower profits from Palm Isles, which obtained its temporary occupation permit in 2015. FCL also saw the tapering-off of sales from its developments in China and the UK.

OUE

OUE's net profit affected by the absence of one-off gain

OUE's 4Q15 revenue rose by 25% YoY, mainly due to the contribution from the consolidation of One Raffles Place, which was listed as an associate in 4Q14. However, its net profit was affected by the absence of one-off gains from the deconsolidation of OUE Hospitality Trust in 4Q14. OUE also recognised an impairment loss of SGD23.2m on OUE Twin Peaks in 2015, following an impairment loss of SGD105m recognised on the project in 2014.

Operational trends

CapitaLand

CapitaLand's 4Q15 EBIT declined by 31% YoY due to lower revaluation gains of its office properties, absence of one-off gains from the Westgate Tower sale in 4Q14 and provisions for Singapore and China residential projects.

CapitaLand's China residential business continues to do well

Despite an uptick in the Singapore residential segment in 4Q15, where 97 units were sold during the quarter (+127% YoY) worth SGD147m (+26% YoY), the 2015 full-year sales volume of residential units was down 12% YoY, while the sales value was flat. In China, CapitaLand's residential business continued to turn in robust results, with the company selling 2,910 units in 4Q15 (+74% YoY) at a sales value of CNY3,837m (+17% YoY).

Its shopping malls turned in a positive performance in 2015, with tenant sales and shopper traffic up 1.2% and 5.4% YoY, respectively, in Singapore and 7.3% and 3.2% YoY in China. Its serviced residence arm Ascott saw a 1% YoY increase in overall RevPAU.

CapitaLand: EBIT by segment

	4Q15		4Q14		% YoY
Segment	(SGDm)	%	(SGDm)	%	
CapitaLand Singapore	76	13%	344	40%	-78%
CapitaLand China	206	34%	95	11%	117%
CapitaMalls Asia	228	38%	380	44%	-40%
Ascott	99	16%	96	11%	3%
Corporate and others	-8	-1%	-48	-6%	-83%
Total	600	100%	867	100%	-31%

Source: Company

City Developments

City Dev's pre-tax profit rose by 8% YoY, driven by the launch of its second Profit Participating Securities (PPS) transaction in 4Q15, which contributed SGD314m. Operationally, City Dev felt the effects of a subdued Singapore residential market in 2015, with the sale of 674 residential units (-51% YoY) at a value of SGD692m (-50% YoY), despite a better performance in 4Q15. In 2016, City Dev plans to launch 2 residential developments – Gramercy Park and another on the Lorong Lew Lian site that it won in 2015.

City Dev's residential business fared better overseas

City Dev found more success overseas for its residential segment. In Australia, City Dev had sold 60% of its residential project (Ivy and Eve) in Brisbane as of 4Q15. City Dev owns 33% of the project with a gross development value of AUD275m. In China, the company sold CNY1.6b worth of units in 2 projects, Hong Leong City Center (Suzhou) and Hongqiao Royal Lake (Shanghai). In London, City Dev had completely sold its 82-unit Hanover House as at 4Q15. In 2016, City Dev is targeting to launch a high-end development, Elin Residences in Chongqing, China, and 2 small residential projects in London.

City Dev's hotel operations saw a 0.6% increase in RevPAR in 2015, with a better showing in the US, Europe and Australasia negating the poorer performance of its hotels in Asia.

City Dev: pre-tax profit by segment

	4Q15		4Q14		% YoY
Segment	(SGDm)	%	(SGDm)	%	
Property Development	116	25%	251	57%	-54%
Hotel Operations	9	2%	139	32%	-93%
Rental Properties	349	74%	41	9%	754%
Others	-3	-1%	6	1%	-147%
Total	471	100%	437	100%	8%

Source: Company

FCL

FCL's 2015 results were affected by the timing difference for its Australian residential business

FCL's PBIT fell 24% YoY for 1Q FY16, mainly due to the timing difference in the completion of its Australian residential developments and the tapering-off of its development profit from its Singapore residential projects. This was partially mitigated by a fair value gain from FCL's Waterway Point JV and contributions from MHDV Group, acquired in June 2015. Its retail REIT, Frasers Centrepoint Trust's (FCT SP, Outperform) DPU grew by 4.4% YoY, helped by a 2% YoY increase in net property income.

In Australia, FCL completed and handed over 500 residential units in 1Q16. However, we note that FCL has over 2,500 residential units planned for completion over the balance of FY16, with the bulk scheduled for 2H FY16.

FCL: PBIT by business unit

	1Q FY16		1Q FY15		% YoY
Segment	(SGDm)	%	(SGDm)	%	
Development Properties	31	15%	70	25%	-56%
Commercial Properties	83	39%	72	26%	16%
Hospitality	48	23%	30	11%	59%
Frasers Australand	58	28%	127	45%	-54%
Corporate and Others	-9	-4%	-20	-7%	-54%
Total	211	100%	279	100%	-24%

Source: Company

OUE

OUE Downtown achieved a committed office occupancy rate of 91% as at 31 December 2015, with asset enhancement work to include a shopping mall and serviced suites that it expects to complete by end-2016. Overseas, OUE's US Bank Tower had a committed occupancy rate of 74.7% as at end-2015, with the construction of an observation deck slated to finish in 2016.

OUE achieved positive rental reversions at OUE Bayfront, One Raffles Place and Lippo Plaza for 4Q15

In 4Q15, OUE's office trust (OUE Commercial REIT) achieved positive office rental reversions of 19.9% YoY and 11.8% YoY for OUE Bayfront and One Raffles Place, respectively, while Lippo Plaza recorded a 9.7% YoY rental uplift. The 3 properties had committed office occupancy of 98.2%, 90.1% and 99.2%, respectively. The overall portfolio committed occupancy was 94.3%.

Outlook and recommendations

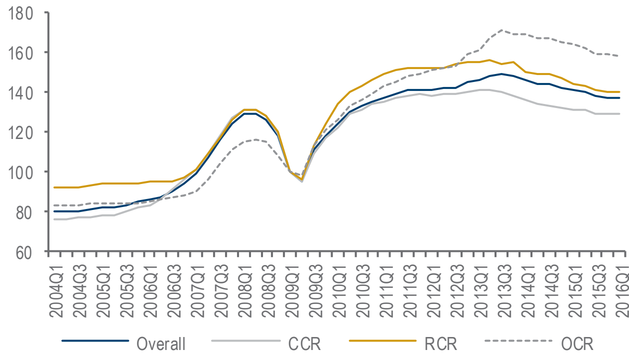
Prefer CDL and HKL among developers

Among the developers, we favour City Dev for its clear strategy in unlocking the value of its assets via the sale of its properties to its PPS platform. Daiwa's Hong Kong property analyst Jonas Kan likes Hongkong Land as its commercial property portfolio remains resilient despite a contraction in office demand in Hong Kong, in our view.

Singapore's PPI is down 9.1% as of 1Q16, its 10th consecutive quarter of decline

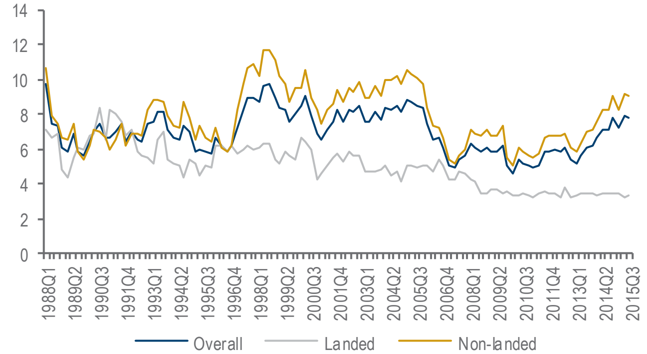
The developers continued to face a challenging environment in Singapore residential market in 2015. According to URA data and flash estimates, the property price index (PPI) declined by 9.1% as of 1Q16, from its peak in 3Q13. This was its 10th consecutive quarter of declines. The overall vacancy rate rose from 5.2% in 1Q13 to 8.1% as of 4Q15. The transaction volume remained soft as well. The developers sold 7,400 units in 2015, the second-lowest amount since 2008 – the lowest was in 2014, where only 7,300 units were transacted. These are below the long-term average of 10,000 units and imply a continuing a downtrend since 2012.

Property price index of Singapore non-landed residential properties



Source: Realis, URA, Daiwa
Note: 1Q09 base year = 100; CCR - core central region, RCR - rest of central region, OCR - outside central region

Vacancy rate of private residential units (excl EC) by type

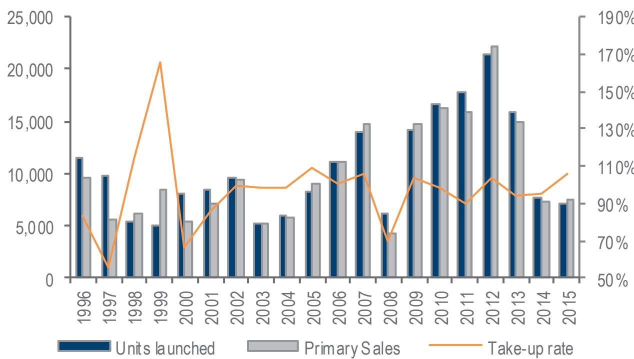


Source: Realis, URA, Daiwa

Homebuyers more selective in recent times

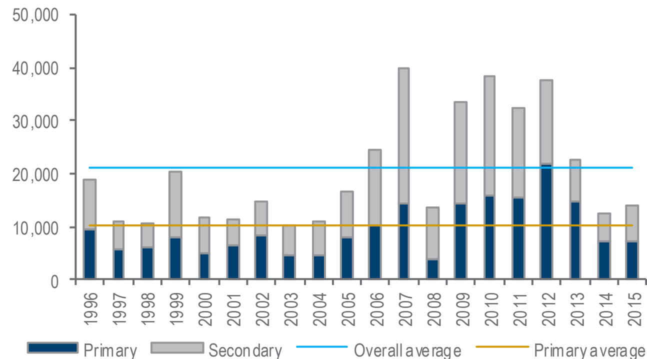
However, we believe that buyers have become more selective recently and are willing to open their wallets for attractive propositions. Despite the subdued environment, High Park Residences, a development project by CEL Development, has seen more than 90% of its total units sold since its launch in July 2015. A soft launch of CapitaLand's Cairnhill Nine in February 2016 was also well received. The company has launched 200 units (of 268 units) so far and sold about 65% of them.

Primary home sales by developers



Source: CEIC, URA, Daiwa

Private residential property transactions



Source: CEIC, URA, Daiwa

Accordingly, we expect a 4-5% YoY decline in the non-landed residential PPI in 2016. This leads us to believe that some adjustments in property-cooling measures could be expected in 2H16, beginning with tweaks to buyer and seller stamp duties. While we believe a relaxation could boost sales and provide a short-term reprieve for developers, we are unconvinced of the long-term benefits, as the developers could see an adjustment as a signal from the government that the decline in home prices has "bottomed out", resulting in more aggressive bidding for land tenders and subsequent margin compression.

Non-landed residential PPI to fall by 4-5% YoY in 2016

YoY change in the property price index for non-landed residential properties

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E	2018E
Overall	4.5%	11.1%	32.6%	-5.3%	0.5%	14.0%	4.6%	2.5%	1.9%	-3.5%	-3.6%	-4.0%	-3.0%	2.5%
CCR	6.0%	17.1%	32.6%	-5.6%	-1.8%	14.2%	4.0%	0.8%	-1.9%	-4.1%	-2.5%	-4.0%	-3.0%	3.0%
RCR	1.3%	3.0%	30.4%	-4.7%	3.1%	17.6%	4.5%	1.6%	-0.1%	-5.3%	-4.3%	-4.5%	-3.5%	2.5%
OCR	1.1%	4.3%	26.3%	-2.8%	11.7%	15.0%	7.6%	6.5%	6.5%	-2.2%	-3.7%	-3.5%	-2.5%	2.0%

Source: Realis, URA, Daiwa forecasts

City Dev could launch its third PPS in 2016

City Dev's launch of its second profit participating securities (PPS) transaction in December 2015 demonstrated to the market that its innovative structure, first launched in December 2014, was not a one-off but a credible framework that could help unlock the value of its assets and potentially narrow the stock's discount to NAV. During its 4Q15 results briefing, City Dev's CEO, Mr. Grant Kelley, hinted about the launch of its third PPS, potentially in 2016. When we hosted the company at our Tokyo Daiwa Investment

Conference in March, we came away with the impression that overseas expansion would be a key focus in 2016, particularly in the UK. In Singapore, City Dev intends to launch Gramercy Park and a private residential development in Lorong Lew Lian in 2016.

We are positive on the CapitaLand pipeline of shopping malls and integrated developments slated to open in 2016-18

In terms of CapitaLand, we are positive on its pipeline of shopping malls and integrated developments set to open in 2016-18. We forecast a China-led EBIT CAGR of 9% for the 2015-18 period, with the share of recurring income from investment properties rising to 79% for 2018, from 64% in 2015. With most of its China residential projects scheduled to be completed by 2019, we believe CapitaLand will look to replenish its landbank in 2016-18. Land acquisitions in line with its focus on mixed developments in the China tier-1/upper tier-2 cities could be share-price catalysts, in our view.

We also believe the company may look to rebalance its portfolio by redeveloping or disposing of some of its properties. In June 2016, the company will begin the redevelopment of Funan Mall, held by CapitaLand Mall Trust (CT SP, SGD2.11, Hold [3]), one of CapitaLand's REITs. There have been news articles reporting the potential sale of Wilkie Edge, held under CapitaLand Commercial Trust (CCT SP, SGD1.45, Hold [3]), as well. The disposal of assets at favourable valuations would be another share-price catalyst, in our opinion.

Hongkong Land's portfolio should be resilient amid a slowdown in Hong Kong office demand

Jonas remains positive on Hongkong Land (HKL SP, USD5.91, Buy [1]), as he expects the company to be resilient amid a contraction in office demand in Hong Kong. He believes Hongkong Land's portfolio has a stable and diversified tenant base with limited exposure to the investment banking industry and PRC corporations. Its retail properties were fully leased as at the end of 2015, with passing rents up by 3% YoY in 2015. The vacancy rate for Hongkong Land's office portfolio declined to 3.4% as at the end of 2015, vs. 4.2% as at the end of June 2015 and 5.4% at the end of December 2014 (see *Core earnings growing at a steady pace*, 4 March 2016).

S-REITs: opportunities becoming scarce

David Lum (65) 6329 2102
(david.lum@sg.daiwacm.com)

Financial performance: maintaining YoY growth

10 out of 13 REITS reported positive DPU growth

The 4Q15 results season turned out to be a strong one for the S-REITs, with 10 out of the 13 stocks under coverage reporting positive YoY DPU growth. The solid 4Q15 results could have contributed to the sector's positive YTD performance.

The overall DPU growth for the sector was underpinned by several factors, including positive rental reversions (leases were renewed at higher rental rates, which increased the net-property income and distributions), benign borrowing costs, and first-time contributions from DPU-accretive acquisitions.

The negative YoY DPU was confined to the hospitality segment and Cambridge Industrial Trust (CREIT). The revenue per available room (RevPAR) was still negative YoY for the Singapore hotel and serviced-residence sector. For the Singapore operations, the revPAR declines were 7% YoY for CDL Hospitality Trust (CDREIT) and 8% YoY for Ascott Residence Trust (ART), and both operators citing weaker demand from the corporate sector as a factor for the weakness. The YoY DPU decline for CREIT came about from the absence of capital distributions or management fees paid in units for the quarter as management adopted a policy of establishing a "clean" DPU (without relying on the DPU uplift from these factors) for the quarter and going forward.

S-REITs: 4Q15 financial summary

Bloomberg	Segment	FY end	Revenue SGDm	YoY % chg	NPI SGDm	YoY % chg	DPU SGD ¢	YoY % chg
CCT SP	office	Dec	67.6	1.9	52.3	3.2	2.17	0.9
SUN SP	office	Dec	87.5	13.9	62.5	17.9	2.75	6.7
KREIT SP	office	Dec	42.8	1.1	34.8	1.5	1.68	11.3
CT SP	retail	Dec	180.4	9.2	125.7	18.6	2.88	0.7
FCT SP	retail	Sep	47.1	(0.2)	33.5	2.0	2.87	4.5
SGREIT SP	retail	Jun	55.6	13.8	43.7	10.4	1.32	2.3
CRCT SP	retail	Dec	56.2	6.7	35.3	5.2	2.59	4.4
AREIT SP	industrial	Mar	193.8	12.9	142.2	24.1	3.95	9.8
MINT SP	industrial	Mar	83.3	6.6	61.9	6.7	2.82	5.6
MLT SP	industrial	Mar	88.9	7.3	74.1	6.7	1.87	0.1
CREIT SP	industrial	Dec	28.5	8.7	21.6	10.7	1.14	(9.0)
CDREIT SP	hospitality	Dec	39.1	(5.0)	35.4	(8.3)	3.01	(3.8)
ART SP	hospitality	Dec	119.2	25.5	56.8	24.3	2.07	(4.2)

Source: S-REITs

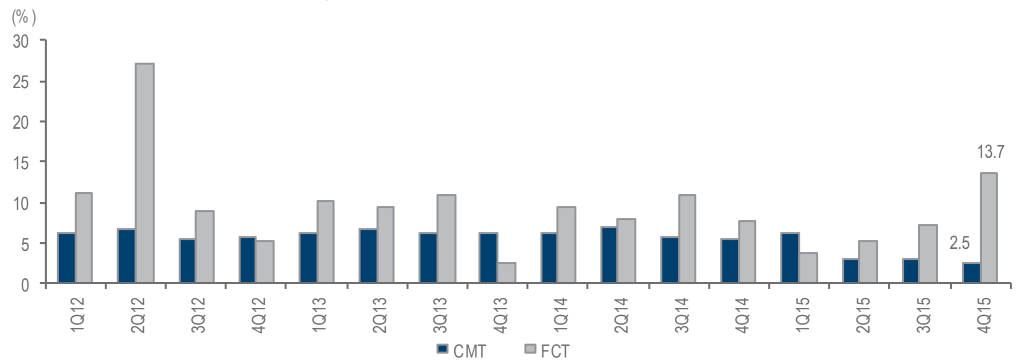
Operational indicators by segment

Retail: rental reversions still holding up

The 4Q15 operating performance, in particular the rental reversion trend, of the retail REITs was slightly ahead of market expectations, in our opinion. The positive surprise came from the 13.7% rental reversion achieved by Frasers Centrepoint Trust (FCT), which management said was exceptional due to favourable tenant remixing at Changi City Point and positive renewals at the successful Food Street in Causeway Point. The rental reversion was more subdued in the portfolio of CapitaLand Mall Trust (CMT), which is probably a better indicator of the state of Singapore's retail malls. For Starhill Global (SGREIT), the overall rental reversion for Wisma Atria was flat (negative for the reconfigured space on level 1 offset by positive rental reversions from other floors in the mall).

FCT's 4Q15 performance is probably unsustainable

CT and FCT: rental reversions by quarter



Source: CT, FCT

Industrial: the impact of single-user to multi-user conversions

NPI margin trend could capture the impact of property conversions

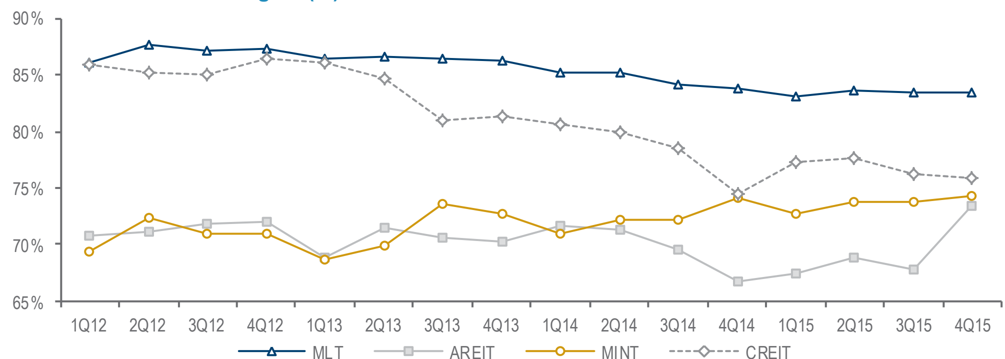
Although the NPI margin is technically a financial indicator, it is the most reliable indicator (in our opinion) in measuring the extent to which an industrial-property portfolio is being affected by the conversion of single-user master-lease properties, which usually command high margins (some as much as 100%), to multi-tenanted properties, which operate at much lower margins because the REIT must bear all operating costs as well as the leasing risk.

The noteworthy trend for 4Q15 was the sharp QoQ improvement in the NPI margin for Ascendas REIT (AREIT). The improvement was due solely to the acquisition of the AUD1bn portfolio in Australia. A substantial portion of the portfolio is on triple-net leases (where the tenant pays for nearly all of the operating expenses associated with the property).

A less obvious trend is the continued QoQ decline in the NPI margin for CREIT, which suggests that the single-user to multi-user conversion is still a drag on certain industrial REITs (including CREIT and Mapletree Logistics Trust [MLT]).

The Australia portfolio has improved AREIT's NPI margin significantly

Industrial REITs: NPI margins (%)



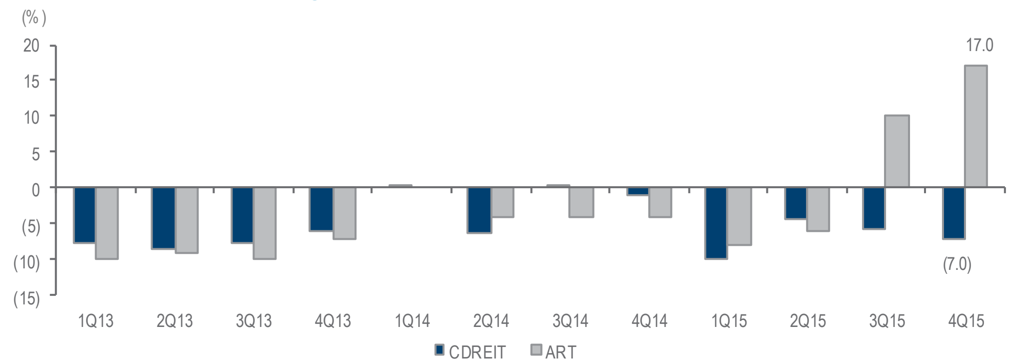
Source: S-REITs

Hospitality: RevPAR still declining YoY

The trend in RevPAR is widely followed for the hospitality REITs. The chart below shows the YoY change in RevPAR for ART's entire serviced-residence portfolio and the YoY change in RevPAR for CDREIT's Singapore hotel portfolio. ART's portfolio has seen a strong turnaround in recent quarters, driven by YoY RevPAR growth in markets such as Japan and Vietnam, even though the Singapore RevPAR remains weak (-8% YoY). We suspect ART's YoY RevPAR growth could also be distorted by the impact of acquisitions in 2015. CDREIT's Singapore hotel performance continued the recent trend of negative single-digit YoY declines for 2015 as room rates were still under pressure from the increase in supply of new hotel rooms.

RevPARs are still in negative territory in Singapore

ART and CDREIT: % YoY change in RevPAR



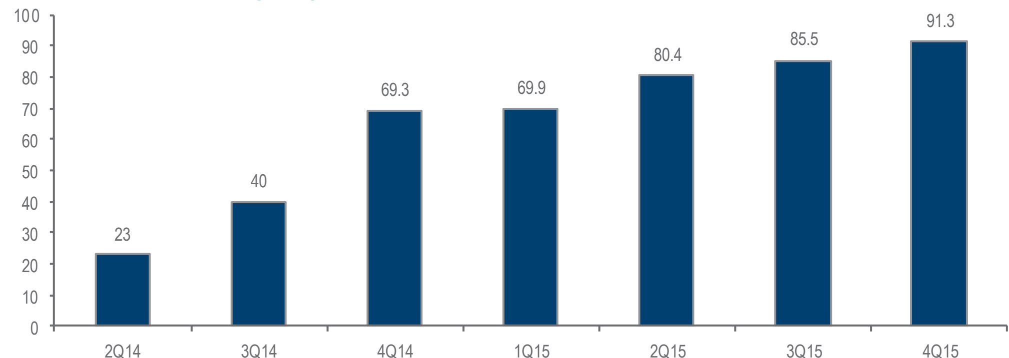
Source: REITs

Office: indications that leasing momentum has slowed

Since the disclosures of average signing rents and rental reversions are not uniform for the office REITs, the most widely followed statistic in recent quarters have been arguably the pre-commitment rate for CCT's CapitaGreen, one of the few Grade-A office buildings that has been completed in the CBD (in December 2014). The rate of leasing has slowed in recent quarters and management's target of having the building 100% leased by the end of 2015 was not achieved. The range of signing rents for CapitaGreen for 4Q15 (SGD11.47-13/sq ft) was also discernibly lower than that for 1Q15 (SGD12-16/sq ft). We believe the leasing trajectory could be a reflection of the downward pressure on market rents as leasing commences for the new office supply in 2016 (Marina One and Guoco Tower).

CapitaGreen's leasing progress since its opening in December 2014

CCT: CapitaGreen leasing progress (% of space committed)



Source: CCT (CapitaGreen was completed on 18 December 2014)

Outlook: most positive on hospitality, industrial, retail

Hotels: Positive

Visitor arrivals have recovered YoY, hotel RevPAR could be next

The current industry data is still negative, with a reported RevPAR growth of -1.4% YoY for January 2016, but we believe the trend of a YoY decline in monthly RevPAR, which has persisted for over 3 years, could be reaching a turning point. Singapore visitor arrivals have turned positive since mid-2015 and we believe they are likely to remain positive for 2016 (the January 2016 visitor arrival growth was 12.2% YoY). The hospitality REITs have been relative laggards YTD vs. their peers and are now trading at among the highest DPU yields in the S-REIT sector.

Compelling risk-reward ratios for CDREIT, ART

We reiterate our Buy (1) rating for CDREIT and our Outperform (2) rating on ART, as we believe the risk-reward ratios for both REITs are compelling, with limited unit-price downside risk, with 2017-17E DPU yields of 7.9-8.5% and the potential for YoY DPU growth on the back of a RevPAR recovery scenario.

A risk to our positive call would be the continuation of YoY declines in hotel-room rates for the rest of 2016, driven by YoY hotel-room supply growth of 7-9% since 2013.

Industrial: Positive

Safe havens for rental reversions, DPU growth

We maintain our Positive rating on the industrial REITs as they are likely to remain safe havens for rental reversions and DPU growth. We have Outperform (2) ratings for all of the industrial-property REITs under our coverage, including Ascendas REIT (AREIT), Mapletree Logistics Trust (MLT), Mapletree Industrial Trust (MINT) and Cambridge Industrial Trust (CREIT).

Potential negative risks for the industrial-property REITs would include poorly perceived acquisitions overseas (most likely in Australia) or disappointing rental reversions or DPU growth in the coming quarters.

Retail: Positive

Defensive, but wary of rental reversions, AEI downtime

We maintain our Positive rating on the retail REITs for their historic NPI and rental-reversion resilience even amid recessionary conditions. However, we are wary of the combination of diminishing portfolio rental reversions (as retailers struggle with their operations and pushback on rental-rate increases) during a period of weak economic growth and downtime for some malls due to new asset-enhancement initiatives (AEI), particularly those announced by CapitaLand Mall Trust (CMT) and Frasers Centrepoint Trust (FCT).

Outperform ratings for SGREIT and FCT

We reiterate our Outperform (2) ratings for Starhill Global REIT (SGREIT) and FCT. After its YTD outperformance vs. the FSSTI and FSTREI, CMT (Hold) no longer looks attractive. A negative risk for the sector would be the report of negative rental reversions in the coming quarters.

Office: Negative

More fundamental weakness

We maintain our Negative rating on the office REITs (downgraded in our 11 March 2016 report, *Singapore Office REITs: 2018: an inconvenient truth*), as we believe the sector fundamentals have deteriorated YTD in view of the subdued preleasing activity for the new office supply. We now expect a 25% 1Q15-peak-to-4Q18-trough decline in office rents for 2017 and YoY DPU declines in 2017-18 for all the office REITs under our coverage. We maintain our Underperform (4) ratings for CCT, KREIT and Suntec.

A risk to our negative call would be evidence of strong pre-leasing progress for the major office projects nearing completion (Marina One, Guoco Tower, and DUO) or better-than-expected office rents.

Telecoms: revenue growth pains

Ramakrishna Maruvada (65) 6499 6543
(ramakrishna.maruvada@sg.daiwacm.com)

Results and operational trends

StarHub's earnings beat our forecasts on taxes; the rest fell short

StarHub's December quarter net profit exceeded our forecast (by 9%), while the numbers for M1 and SingTel missed our forecasts by 4% and 3%, respectively.

Singapore Telecoms Sector: 4Q15 results summary

	YoY				QoQ			
	Rev	EBITDA	EBITDA margin	Net profit	Rev	EBITDA	EBITDA margin	Net profit
Singapore								
SingTel	1	(1)	-0.5 pp	(2)	7	(5)	-3.5 pp	(2)
Singapore only	6	4	-0.6 pp	(2)	8	(9)	-5 pp	(2)
StarHub	(2)	(18)	-5 pp	(14)	5	(21)	-8.2 pp	(32)
M1	(11)	1	3.4 pp	(4)	11	1	-2.7 pp	(4)

Source: Companies

StarHub's 4Q15 net profit beat our forecasts, mainly on account of lower-than-expected depreciation and tax rates (4Q15: 9.6%) and partly helped by some group tax relief. Its core operational performance was poor, with the 4Q15 EBITDA missing our forecast by 3%, as its service revenue (down 1.1% YoY) disappointed. Its pay-TV subscription (4Q15: loss of 6,000 customers) and mobile service revenue (down 2.3% YoY) trends were key negative surprises in the results.

In contrast, M1's 4Q15 net profit came in at 4% below our forecast because of higher-than-expected depreciation expenses and tax rates incurred. The operational performance was steady, with the EBITDA coming in 3% ahead of our forecast. While the company's 2015 DPS (80% payout ratio) and capex (2015: SGD133.5m versus our forecast of SGD114.9m) disappointed, the fixed-line division performed strongly.

Meanwhile, SingTel's results came in slightly below our forecasts due to: 1) a weaker-than-expected AUD (our forecast was 1.09 versus the actual number of 1.0), 2) the poor performance of its associates, particularly in India, and 3) a smaller-than-expected boost from its acquisitions (Trustwave). On the surface, there were 2 problem areas for the Australia business: its mobile service revenue growth slowed to 1% YoY (vs. 3-6% over the past few quarters previously) and its post-paid segment lost 26,000 customers. However, management explained that: 1) the mobile service revenue growth rate slowed mainly because of the expansion in the range of handsets being made available under its "device repayment plans", and 2) post-paid customers, excluding losses due to the termination of TPG Telecom (TPM AU, not rated) contracts (114,000), were fairly strong. Overall, we still feel that the Australian business is the bright spot and the company's strategy to focus on its mobile-led multimedia there appears to be working.

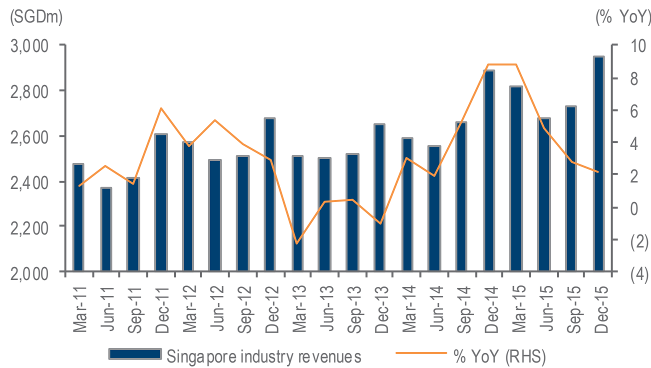
Revenue growth in the industry is slowing

SingTel's diversification efforts are a key industry revenue driver

Industry revenue growth in Singapore eased in the December 2015 quarter (up 2.2% YoY; 2014 December quarter: +8.8% YoY), driven by first-time contributions from the Trustwave (SGD75m) acquisition undertaken by SingTel.

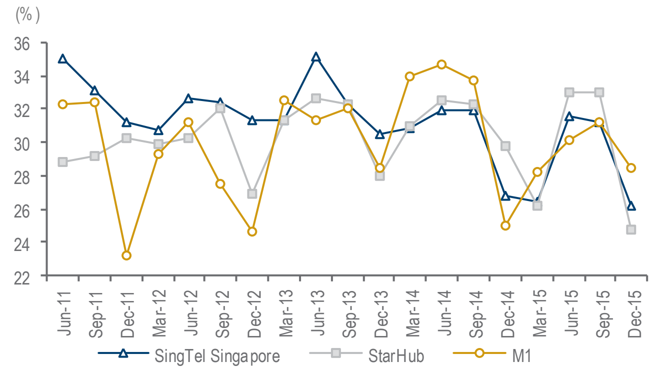
Excluding handset sales (-14% YoY), SingTel's digital business revenue and contribution from Trustwave and industry revenue rose by 0.8% YoY (3Q15: -0.2% YoY; 4Q14: +2.1% YoY).

Singapore Telecoms Sector: industry revenue



Source: Companies, Daiwa estimates

Singapore Telecoms Sector: EBITDA margin



Source: Companies, Daiwa estimates

On the other hand, the industry EBITDA fell by 2% YoY, halting the improving trend over the past 2 quarters, mainly due to cost surprises seen at StarHub.

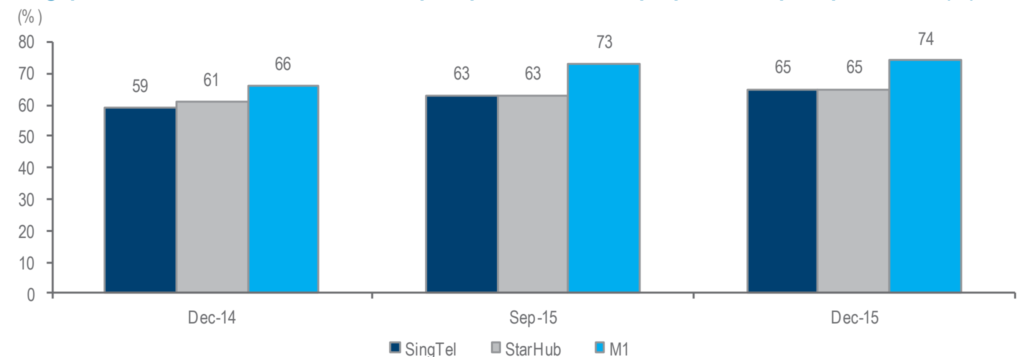
Post-paid: tiered data-plan migration appears to be levelling off

The key developments in the post-paid market include: 1) the continued migration of customers to tiered data plans and the decline in the consumption of voice/SMS services, and 2) attractive promotional discounts being made available for SIM-only plans.

Tiered data-migration and voice-usage declines remain dominant trends

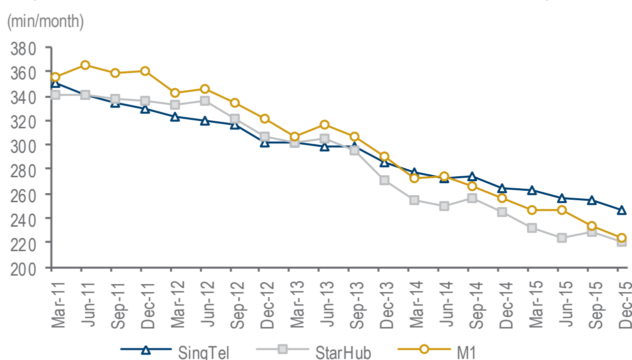
The tiered data-plan penetration level is now at more than 65% of the post-paid customer base for all the operators, and is showing early signs of flattening out. In addition, data usage levels continue to inch up, with M1 reporting that the average smartphone user's data consumption rose from 3.0GB in 4Q14 to 3.3GB in 4Q15 (3Q15: 3.3GB). In contrast, however, post-paid usage levels continue to fall, with the bottom not yet in sight, in our view.

Singapore Telecoms Sector: tiered-data plan penetration as a proportion of post-paid users (%)



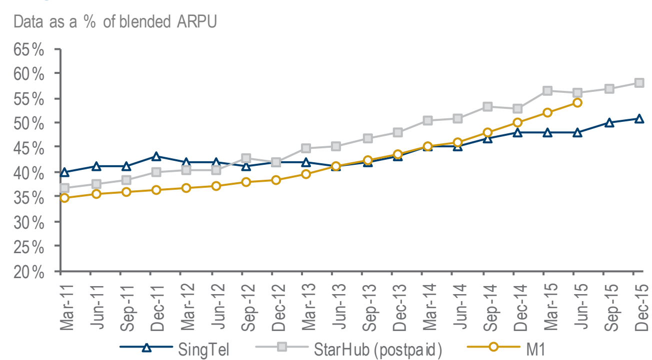
Source: Companies

Singapore Telecoms Sector: post-paid minutes of usage (MoU)



Source: Companies

Singapore Telecoms Sector: data as a % of blended ARPU

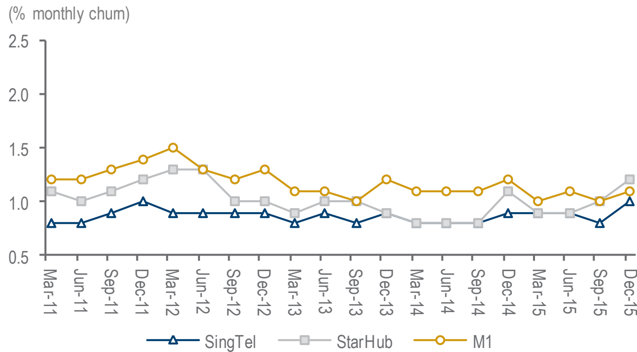


Source: Companies, Daiwa estimates

Competitive environment is increasing

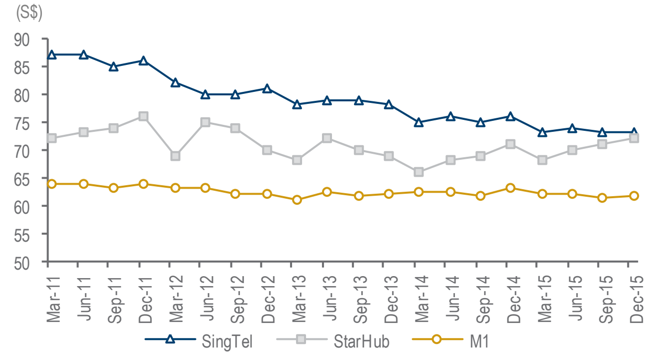
Meanwhile, the competitive environment in the post-paid mobile segment appears to have inched up a little as evidenced by the uptick in churn rates and also the limited launch of aggressive data bundles (StarHub is offering its customers 3GB of additional data for SGD3 per month in top-up fees).

Singapore Telecoms Sector: mobile churn rates



Source: Companies

Singapore Telecoms Sector: post-paid ARPU



Source: Companies

Prepaid: market appears saturated

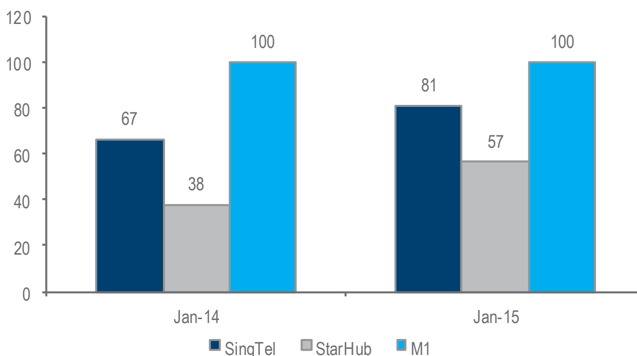
On our estimates, the industry's prepaid revenue fell by 6.0% YoY for 4Q15 (3Q15: 5.1% YoY decline) due to industry saturation and changing consumer preferences – prepaid subscribers are relying increasingly on data services rather than international calls when communicating with friends and family overseas. For example, M1 reported a 20% YoY decline in its international call revenue for 1Q15.

The prepaid industry subscriber base increased (10,000 net additions) for the first time in over 9 quarters due to the diminishing impact of past regulatory action – the IDA reduced the maximum SIM cards held per customer from 10 to 3 in 2Q14.

Broadband: bottomed out, but recovery appears to be slow

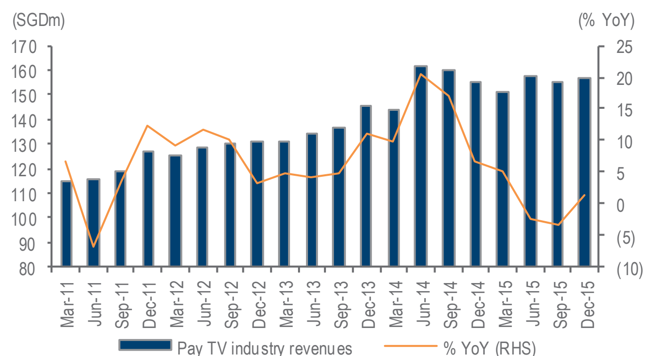
Broadband revenue appears to have bottomed out on a sequential quarter basis, but any recovery appears to be quite slow in arriving. For example, StarHub's revenue rose by 9.0% YoY (2% QoQ), while SingTel posted a modest 0.8% YoY increase.

Singapore Telecoms Sector: fibre-broadband penetration as proportion of broadband customers (%)



Source: Companies, Daiwa estimates

Singapore Telecoms Sector: pay-TV industry revenue growth



Source: Companies, Daiwa estimates

Pay TV: a 2-player equilibrium for now

The revenue growth rates in the pay-TV industry have slowed over the past year as the industry appears to have reached equilibrium. In 4Q15, industry revenue rose by 1% YoY, with SingTel managing to eke out a 0.8pp YoY improvement in its revenue market share.

Netflix could alter the pay-TV landscape in the future

The recent arrival of over-the-top (OTT) players like Netflix in the market could disturb this cosy equilibrium in the long run, but it remains too early to say. For now, both SingTel and StarHub are taking a cooperative approach – SingTel is using Netflix as a promotional channel to lock-in customers – and hence we do not see the OTT players as an immediate threat.

Market-share trends

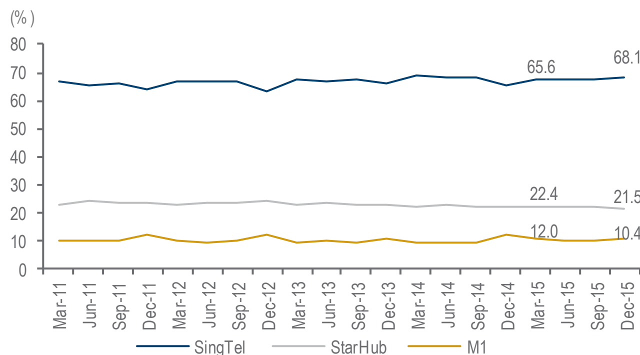
For 4Q15, SingTel improved its revenue share (by 2.5pp YoY) at the expense of both M1 and StarHub. Meanwhile, its EBITDA market share rose by 3.8pp mainly at the expense of StarHub.

Singapore Telecoms Sector: industry trends

%	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	YoY (pp)
Mobile revenue market share												
SingTel	51.5	52.3	52.6	52.0	52.0	52.2	52.0	52.3	52.6	52.7	52.7	0.7
StarHub	32.0	31.3	31.1	31.3	31.1	31.0	31.3	30.9	30.9	30.8	30.8	(0.5)
M1	16.5	16.4	16.3	16.8	16.9	16.7	16.8	16.8	16.5	16.5	16.6	(0.2)
Postpaid subs market share												
SingTel	48.5	48.8	48.3	48.2	48.1	48.2	48.3	48.0	47.9	47.9	48.0	(0.3)
StarHub	25.9	25.9	26.7	26.9	27.0	27.0	27.2	27.5	27.6	27.5	27.4	0.1
M1	25.6	25.3	25.0	24.9	24.9	24.7	24.5	24.5	24.6	24.6	24.7	0.2
Prepaid subs market share												
SingTel	45.1	45.3	45.5	46.1	48.5	52.1	53.7	53.9	53.6	53.4	52.7	(1.0)
StarHub	29.2	28.9	29.3	28.9	28.4	26.4	25.6	25.0	25.2	25.5	25.5	(0.1)
M1	25.7	25.8	25.2	25.0	23.1	21.5	20.7	21.1	21.2	21.1	21.7	1.1
Pay TV revenue market share												
Mio TV revenue	28.6	29.9	31.7	34.8	39.0	39.3	35.5	36.5	37.8	37.3	36.3	0.8
StarHub cable TV	71.4	70.1	68.3	65.2	61.0	60.7	64.5	63.5	62.2	62.7	63.7	(0.8)
Pay TV subs market share												
Mio TV subs	43.4	43.8	44.0	44.0	43.9	43.7	43.7	43.7	43.6	43.8	44.2	0.5
StarHub pay TV	56.6	56.2	56.0	56.0	56.1	56.3	56.3	56.3	56.4	56.2	55.8	(0.5)
Broadband subs market share												
SingTel	52.4	51.9	51.5	51.5	51.3	51.0	50.6	50.3	50.0	49.8	49.7	(0.9)
StarHub	41.3	41.0	40.7	40.4	40.4	40.4	40.5	40.5	40.3	40.1	39.6	(0.9)
M1	6.3	7.1	7.7	8.1	8.3	8.6	8.9	9.2	9.7	10.1	10.7	1.8

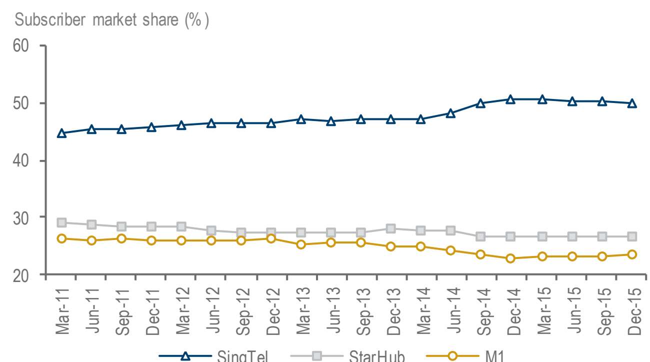
Source: Companies, Daiwa estimates

Singapore Telecoms Sector: consolidated revenue share



Source: Companies, Daiwa estimates

Singapore Telecoms Sector: subscriber market share



Source: Companies, Daiwa estimates

In the important mobile market, even though SingTel ceded subscriber market share, its rising revenue share continues to be the dominant trend.

Outlook

New entrant threats, the impact of rising bond yields and weak revenue trends remain central issues impacting the outlook of the Singapore Telecoms Sector. As discussed in earlier sections, we do not think the threat of new entrants will materialise; however, an unexpected outcome here could severely dent the medium-term profit outlook for the sector.

Threat of new entrants and rising bond yields remain the key risk factors

Meanwhile, the share prices across the sector have diverged this year, with M1 and StarHub underperforming SingTel. This could be because of positive developments at some of the SingTel's associates – strong revenue growth in Indonesia and the removal of the threat of new entrants in Thailand. However, as the YTD poor performance of M1 and

StarHub coincide with the fall in bond yields (by 0.75pp YTD), we think the threat of new entrants is also playing a role in shaping return trends. Overall, we think that rising spreads over bond yields remain a supportive factor for share-price performances in the sector, even though the earnings outlook appears modest at best.

Earnings growth outlook is modest

For 2016, we look for a 1.6% YoY rise in the industry revenue (2015: 6.4%) along with a 2.5% YoY increase in EBITDA (2015: 2.9%). Overall, we are looking for a 0.7% rise in the industry net profit. Over the 2015-18 period, we forecast earnings CAGRs of 0% for SingTel, -2.9% for StarHub, and 3.7% for M1.

M1 is out top sector pick as we believe the company is well positioned to gain market share in the fixed-line segment (from 10.2% for 2015E to 13.9% by 2018E). We also like the options that it provides investors via its investment plans in Oman and good management execution. Meanwhile, we maintain our Neutral rating for the sector, with a Hold (3) rating for SingTel, and an Underperform (4) rating for StarHub. Any narrowing of dividend yields would be the main positive risk to our thesis, while the entry of new players in the mobile market would represent the key downside risk.

Changes in guidance

Both M1 and StarHub reaffirmed their respective 2015 guidance statements, originally issued at the beginning of 2016, while SingTel also upheld its FY16 (March year-end) guidance.

For 2016, M1 is guiding for “stable net profit YoY” versus our forecast of a 4.4% YoY increase. On the other hand, StarHub guides for a low single-digit YoY increase in its service revenue (our forecast: 2.0% YoY growth) and a service EBITDA margin of around 31% (our forecast 31.7%).

Meanwhile, SingTel has reaffirmed its FY16 guidance issued earlier in the September quarter, though it noted that it hasn't take into account the AUD200m negative revenue impact arising from a change in interconnection rates in Australia from January 2016. The company guides for: consolidated group revenue and EBITDA to rise at a “mid-single-digit level” (our forecast: 5.1%) and a “low single-digit level” (our forecast: 4.4%) respectively, excluding some recent acquisitions. However, implicit in the company’s guidance is the AUD:SGD currency exchange rate of 1.12, versus the current spot rates hovering at around parity. For the Singapore business alone, the company guides for “mid-single-digit” mobile revenue growth (our forecast: 3.6%).

Daiwa vs. the Bloomberg consensus

Relative to the Bloomberg-consensus EPS forecasts for the current financial year (FY0) and the next financial year (FY1), we are below consensus for StarHub but above for M1. The key reason for this could be our bullishness on M1’s ability to penetrate the fixed-line market.

Daiwa EPS forecasts relative to Bloomberg consensus

Bloomberg ticker	FY0E % var	FY1E % var
SingTel	2.9	5.5
StarHub	-1.0	-5.9
M1	3.6	9.9

Source: Bloomberg, Daiwa forecasts

Key sector risks

Higher-than-expected handset subsidies or any deterioration in the competitive landscape, for example via the entry of new players, would pose downside risks to our Neutral sector call. On the other hand, any declaration of special dividends would pose an upside risk to the target prices of all the 3 stocks under our coverage.

Singapore Offshore & Marine: major losses on provisions/impairments

Royston Tan (65) 6321 3086
(royston.tan@sg.daiwacm.com)

4Q15 results review

Offshore & marine companies: quarterly results

	Revenue			PATMI		
	4Q15	4Q14	YoY	4Q15	4Q14	YoY
Asset builders						
KEP	2,479.6	3,925.3	-36.8%	404.8	386.4	4.8%
SMM	1,327.0	1,444.9	-8.2%	(536.9)	174.0	-408.6%
SCI	2,419.1	2,664.4	-9.2%	60.8	240.6	-74.7%
COSCO	725.5	915.8	-20.8%	(484.0)	13.2	-3766.7%
VARD	3,320.0	4,500.0	-26.2%	(83.0)	154.0	-153.9%
YZJ	3,125.2	3,782.0	-17.4%	41.5	636.6	-93.5%
Asset owners						
EZION	84.8	104.6	-18.9%	(63.5)	83.7	-175.9%
PACRA	21.7	37.2	-41.7%	(2.6)	5.1	-151.0%

Source: various companies

We believe there is a high propensity for the earnings disappointment to continue in 2016, given no change in the current weak macro outlook

The 4Q15 financial performances for the Singapore O&M companies under our coverage remained poor, with both revenue and PATMI underperforming our below-consensus forecasts. We expect earnings for most of the stocks that we cover to remain under pressure in 2016, as we see no improvement in the industry's fundamentals. The over-supply of assets remains a pertinent problem within the offshore and marine industry, which will likely result in minimal construction activities and declining asset utilisation and day-rates this year. These should have an adverse impact on both asset builders and owners.

Challenging times for the asset builders

Offshore & marine: 4Q15 vs. Daiwa forecasts

Variance (%)	Revenue	PATMI
Asset builders		
KEP	(41.0)	5.4
SMM	22.2	N.A.
SCI	10.5	(86.7)
COSCO	(28.1)	N.A.
VARD	38.0	(3.8)
YZJ	(20.4)	(94.8)
Asset owners		
EZION	(8.5)	(262.4)
PACRA	(36.9)	(192.9)

Source: Various companies, Daiwa forecasts

With the exception of Keppel Corp and Vard, the majority of the asset builders underperformed our expectations in 4Q15 due to larger-than-expected provisions/impairments made on their assets. The yards are facing increasing requests for delivery deferment and in some cases outright cancellations, resulting in provisions made on high-risk contracts in 4Q15. Given that clients have continued their asset deferment requests into 2016, it is unlikely that we have seen the trough in contract provisioning.

Besides provisions made on deferred/cancelled contracts, potential impairments on overvalued fixed assets could surprise the market negatively. An example would be SembMarine's SGD1bn investment pertaining to its Brazilian yard, Estaleiro Jurong Aracruz (EJA) which could see low utilisation rates in the coming quarters as new order flow dries up from Petrobras, the state-backed entity currently besieged with debt and corruption woes. Asset impairments, depending on their magnitude, could surprise the market further negatively, in our view. We forecast an 8% haircut to SembMarine's fixed assets, amounting to about SGD280m by end-2016. Similarly, both Cosco and Vard run

the risk of having to make asset impairments on their uncollectable receivables and overvalued property plan and equipment (PPE), stemming from low yard utilisation.

Slowing order wins to negatively affect revenue recognition

Singapore asset builders: revenue forecasts for 2016-18 (in currency)

	Revenue (million)		
	2016E	2017E	2018E
Asset builders			
KEP	8,725	7,529	7,797
SMM	4,093	3,947	3,121
SCI	9,017	9,832	9,317
COSCO	2,916	2,766	2,711
VARD	8,304	7,095	6,901
YZJ	16,805	15,585	12,981

Source: Daiwa forecasts

We believe the weak newbuild trend could force rigbuilders to lower their asking prices in the coming quarters

The oversupplied offshore and shipping market deterred asset owners from placing new orders with yards in 2015. Credit constraints coupled with a high leverage situation are also key reasons why the asset owners are unable to capitalise on declining newbuild prices. Offshore new orders were almost non-existent in 2015 and we expect this trend to persist into 2016-17. This will result in lower revenue recognition across offshore asset builders like Keppel Corp, SembMarine, Cosco and Vard. Even if new order wins do materialise, these contracts are likely to be on onerous terms for the yards, with newbuild prices having already declined by approx. 30% currently since the peak in 2013-14. Consequently, we expect the margins and profitability on new contracts to be depressed.

New order wins should remain weak in 2016, driven by excess supply amid declining demand as the oil companies cut back on capex

Newbuild orders within the MODU market (units)

Source: Clarksons Research

Chinese yards face bankruptcy risks

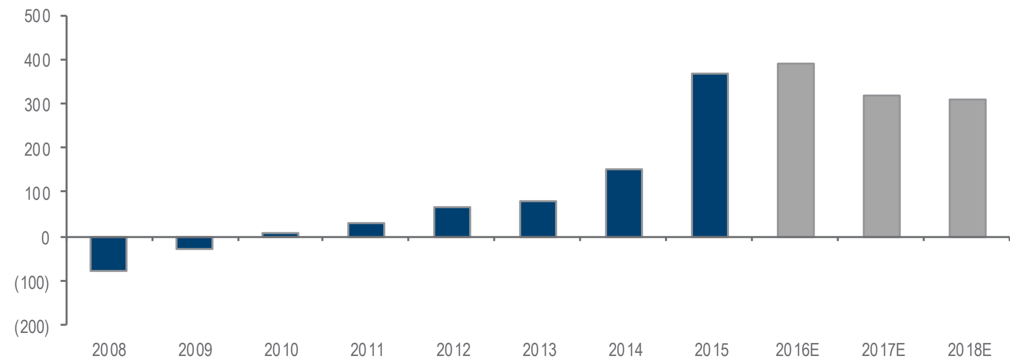
According to the China Association of the National Shipbuilding Industry (CANSI), more than 30 major large-scale shipyards have gone bankrupt over the past 2 years. We believe this trend is likely to escalate in severity over the coming 2-3 years, given the central government's resolution to resolve the overcapacity issue facing China's shipping industry.

Better-managed yards like Yangzijiang (YZJ) are likely to survive the current shipbuilding downcycle, with the possibility of emerging from this crisis as a larger and stronger entity if the company is able to engage in value-accretive acquisitions, capitalising on fire-sale assets. Although the medium- to long-term prospects look promising, we are bearish on the company's short-term profitability outlook, on declining shipbuilding profit margins, as well as the potential cancellation/deferment of construction contracts.

State-backed yards such as Cosco Singapore (Cosco), which is not well-managed in our view, could risk being declared bankrupt if the current offshore downturn shows no signs of abating. Its net gearing as at 31 December 2015 was hovering at 3.7x, which is a major concern for us. Given the tough environment for offshore shipbuilding, we see Cosco facing challenges in servicing its debt.

Cosco's net debt was at an alarming 3.7x as at 31 December 2015. Without state backing, Cosco is likely to face challenges to service its debt

Cosco: net (cash)/debt (%)



Source: Company, Daiwa forecasts

Low utilisation rates for asset owners

PACRA could face credit constraints if its newbuild orders upon delivery are unable to secure work in the coming quarters

We remain cautious on PACRA's capex commitment, which stands in excess of USD100m for 2016. Despite a low utilisation rate of approx. 50% for its core offshore support segment (OSS), management remains committed to taking delivery of new offshore supply vessels (OSVs) in the coming quarters, which is likely to result in higher fixed operating costs. The company's recent performance has been boosted by gains from the sale of assets to related parties. However, payment terms on these sales stretched to 1-5 years. The collection of these outstanding sale proceeds of USD158m remains questionable, in our view, and the company might be forced to make provisions for these receivables on the back of a deteriorating offshore environment.

We do not expect a significant improvement in both asset utilisation rates and consequently operational earnings in the coming quarters. However, if the current share price weakness persists, we believe PACRA could be a potential candidate for a takeover, given its fleet of young OSV assets, which should be an attractive proposition for larger peers looking to renew their aged fleets.

Ezion looking to diversify its O&G exposure

Ezion's management guided at its 4Q15 results briefing that most, if not all, of its customers have now requested a reduction in day-rates. Amid the challenging offshore environment, the company has deferred the delivery of 6 liftboat units from 2016 to 2017, in a bid to reduce its capex commitment this year to approx. USD100m from previous guidance of more than USD300m for 2016.

The company has also decided to diversify into areas such as offshore wind-farming through JVs with China state-linked entities. Further, management has guided that the company is likely to announce new ventures outside of the offshore industry in the coming quarters.

We still view Ezion as one of the best-positioned among the O&G stocks, with the company's flexibility to redeploy assets into non- O&G sectors further ensuring its long-term survival. However, we deem our investment proposition of earnings resilience as no longer relevant amid 3 consecutive quarters of YoY earnings declines and believe that uncertainty pertaining to payment collection issues from clients such as Pemex now warrants additional attention.

Daiwa vs. Bloomberg consensus

Daiwa EPS forecasts relative to the Bloomberg consensus

	FY0E % VAR	FY1E % VAR
Asset Builders		
KEP SP	(13.4)	(13.2)
SMM SP	(0.9)	2.6
SCI SP	(9.7)	(10.0)
COSCO SP	135.7	186.7
VARD SP	(57.6)	(91.5)
YZJSGD SP	(4.0)	0.9
Asset Owners		
EZION SP	41.6	30.8
PACRA SP	(72.0)	(54.3)

Source: Daiwa forecasts, Bloomberg

We are more bearish on the FY0E and FY1E earnings of the O&G-related counters under our coverage vs. the Bloomberg consensus, with the exception of Cosco and Ezion. This sets the stage for earnings downgrades by the Street in the coming quarters if consensus forecasts indeed prove overly bullish.

Recommendations

We see the recent oil price-led rally in the Singapore O&M counters as unjustified given no change in its weak fundamentals

The key trend driving the O&G industry this year is undoubtedly the oversupply of oil, further compounded by a weak demand environment. We believe companies will need to address pertinent issues with regard to staying lean and competitive amid the challenging environment, concurrently transforming their business models to adapt to the new reality of a lower-for-longer oil-price environment.

We have a Negative view on the Singapore Rigbuilders Sector and maintain our Hold (3) rating on Keppel Corp and Sell (5) call on both SembMarine and Cosco. We believe Keppel remains a better long-term strategic holding vs. SembMarine, given its diversified business model. Hence, we still prefer Keppel over SembMarine as a way to generate a higher alpha.

SCI's stable utilities business remains an attractive proposition to us. However, given our belief that its 61%-owned stake in SembMarine could be the subject of an equity-raising exercise in 2016, we think SCI will be affected by a cash-flow drain to support the working capital requirements of SembMarine. We thus have a non-consensus Underperform (4) rating on SCI and believe that the market is overly optimistic on the earnings contribution of its Indian power plants.

Vard remains a Sell (5) due to our bearish take on its yard business in Brazil and Europe. A key upside risk, which we have identified previously, would be a privatisation by its parent company, Fincantieri. The Italian-based shipbuilder had in 2013 acquired a 51% stake in Vard (then known as STX OSV) at a cost of SGD1.22/share. Vard is currently trading at SGD0.182/share, a massive 84% decline from Fincantieri's acquisition price. Given that Fincantieri's core cruise vessel market remains relatively unaffected by the oil price decline, the company could look to privatise Vard and achieve synergistic savings by restructuring the various yards across Europe.

We keep our Underperform (4) rating on Yangzijiang, as we now see heightened margin compression risk in relation to its new company strategy of aggressive bidding for tenders.

We have a Hold (3) rating on Ezion as our initial proposition to buy the counter due to its business resilience can no longer be deemed relevant. Despite management's assurance that all assets remain on-charter with clients, the amount of downtime where no revenue is generated remains substantial. The national oil companies (NOCs) and the international oil companies (IOCs) have both demanded day-rate reductions, in addition to payment delays that could potentially translate into payment issues.

However, we still view Ezion as one of the best positioned among the O&G stocks, with the company's flexibility to redeploy assets into non-O&G sectors further ensuring its long-term survival, in our view.

We remain cautious on PACRA, keeping our Sell (5) rating. Despite the significant margin of safety when we compare its market capitalisation vs. its revalued book value (accounting for the current market valuation of its vessels), we believe the market will only rerate the stock once it sees definitive signs of margin improvement from the cost-rationalisation exercise taking effect currently. However, we do see the company as a prime takeover candidate by larger industry peers looking to renew their aged asset fleets.

Key sector risks

The key upside risks to our Negative sector view include:

1) A strong sustainable rebound in oil prices, which would likely improve investor sentiment on the oil & gas sector.
2) For Keppel and Sembcorp Marine, a resolution in the Petrobras scandal with no cancellation of orders and no reduction in contract prices.

Consumer and healthcare: cost management key

Jame Osman (65) 6321 3092
(jame.osman@sg.daiwacm.com)
Shane Goh (65) 6499 6546
(shane.goh@sg.daiwacm.com)

Consumer stocks

4Q15 results review

The consumer stocks under our coverage reported disappointing 4Q15 results. Underlying trends characterised by the weak 4Q15 YoY revenue growth indicate to us that consumption levels appear to be fairly tepid against a challenging macroeconomic backdrop. Meanwhile, companies appear to be taking proactive steps to manage costs accordingly in the face of a protracted economic slowdown to preserve operating margin efficiency.

Singapore consumer: 4Q15 results review

% YoY	Revenue	Operating profit	Operating margin	Net profit
Sheng Siong	5	18	1.0pp	24
Super	(8)	(6)	0.4pp	(19)
BreadTalk	0	8	0.4pp	(92)
OSIM	(5)	(57)	-10.4pp	(66)

Source: Companies

Slowdown in SSSG for Sheng Siong

Sheng Siong's 4Q15 results were weaker than we expected, mainly on account of the slowdown in 4Q15 SSSG (down 1.7% YoY), which management attributed more to store-specific reasons than an overall decline in shopper spending.

Super's food-ingredient segment remains weak

Meanwhile, although Super's 4Q15 results were in line with our forecasts, its revenue growth trends for both its branded-consumer (down 1.2% YoY) and particularly its food-ingredient segments (down 20.2% YoY) were the key disappointments. We remain cautious on a potential earnings recovery and are waiting for clearer signs that its new products are gaining traction before turning more positive on the stock.

BreadTalk missed our forecasts due to a higher-than-expected tax rate

BreadTalk's 4Q15 results were below our forecasts due to a higher-than-expected effective tax rate. The net profit for 4Q15 fell by 91.7% YoY to SGD1.1m, from SGD13.8m in 4Q14, due to the absence of a SGD10m fair-value gain recognised in 4Q14. Excluding the impact of this fair-value gain, the net profit would have fallen by SGD3.1m instead.

OSIM's net profit fell short of our forecast due mainly to one-off legal fees and losses

OSIM's 4Q15 net profit of SGD9.3m (down 66% YoY) missed our forecast, due to soft sales volume of its OSIM lifestyle products, legal fees related to TWG Tea court cases and a one-off loss for its Australian GNC business entering voluntary administration. Adjusting for these costs, the net profit would have missed out forecast by 14%.

Operational trends

While the weak regional currency environment has been a prevailing theme impacting the performances of the consumer stocks under our coverage over the past few quarters, revenue growth trends appear to have been impacted to an extent by a slowdown in consumption patterns observed across ASEAN markets as well. In response to this, companies appear to be turning to cost-management initiatives to preserve margin efficiency, boosted as well by lower input cost factors (commodities, fuel prices).

Margins holding up despite weak revenue trends due to cost management

For example, despite the weaker SSSG at Sheng Siong, its gross margin (up 0.7pp YoY) has continued to hold up well, driven by the company's cost-management initiatives (bulk handling, direct purchasing, etc) centred around its Mandai warehouse. Similarly, BreadTalk's overall EBITDA margin improved by 0.4pp YoY to 14.1% for 4Q15, led by the closure of its underperforming Ramen Play outlets and strong SSSG at its Din Tai Fung outlets. However, the EBITDA margin of its bakery business remained under pressure from

higher staff and rental costs, while the EBITDA margin for its food-court segment narrowed YoY, due to a softer contributions from its China outlets, start-up expenses for new stores and write-offs relating to outlet closures. We remain positive on management's plans to improve the company's profitability on effective cost management and store rationalisation, as well as its reduced focus on expansion plans for self-operated outlets. Hence, we forecast a 2.3pp EBITDA margin expansion to 14.8% by end-2016.

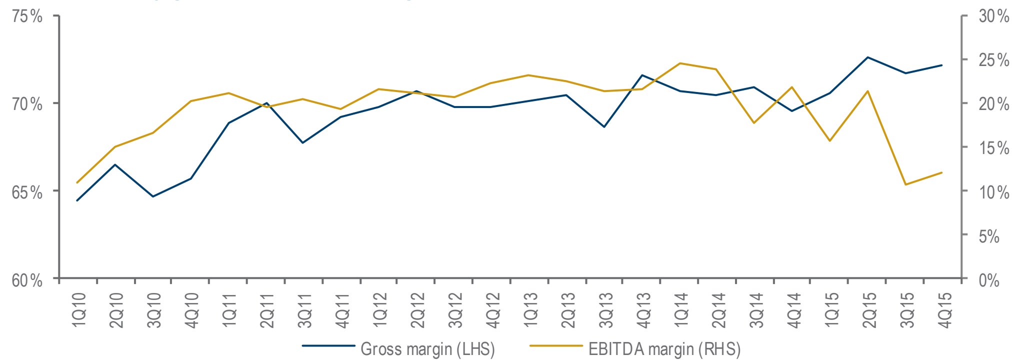
BreadTalk: quarterly EBITDA margin (%)

Source: Company

OSIM's 4Q15 EBITDA margin affected by one-off expenses

Meanwhile, OSIM saw an overall decline of 5% YoY in 4Q15 revenue due to weak sales for its OSIM lifestyle products, with North Asia the only bright spot (up 3.9% YoY). Although the gross margin improved by 2.7pp to 72.2% for 4Q15, the EBITDA margin narrowed by 9.8pp to 12.1%, due to one-off legal fees and losses. Looking ahead, OSIM intends to launch a new massage chair model in 2Q16, likely to replace its uMagic chair, which has not performed to management's expectations. Management also intends to continue rationalising unprofitable and non-strategic OSIM outlets and aims to open 15 new TWG Tea outlets in 2016. We forecast a 1pp increase in the EBITDA margin to 15.8% by end-2016.

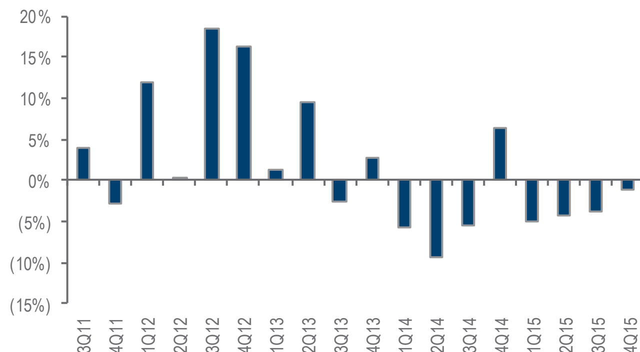
OSIM: quarterly gross and EBITDA margins (%)



Source: Company

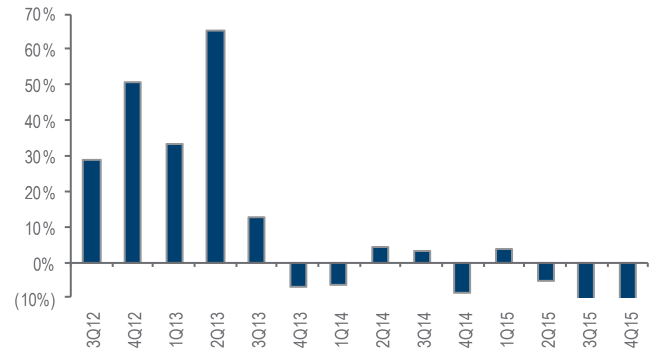
Finally, even as Super's 4Q15 gross margin improved by 3.2pp YoY, we believe this had more to do with the sales mix, as the higher-margin branded-consumer segment accounted for a greater proportion of overall sales (68.1% of 4Q15 revenue vs. 63.2% in 4Q14), and to a less extent lower raw-material costs. Despite the company launching its new "premiumised" products in November 2015 in Singapore and Malaysia, its 4Q15 branded-consumer coffee product sales (down 0.4% YoY) indicate to us that the company may have to increase its marketing efforts to drive product traction.

Super: branded-consumer segment revenue growth YoY



Source: Company

Super: food-ingredient segment revenue growth YoY



Source: Company

Sheng Siong remains our top pick

Sheng Siong remains our top pick among the consumer stocks under our coverage. Its exposure to a defensive supermarket business in the Singapore consumer sector and what we view as an attractive 2016E dividend yield of 4.8% remain appealing to us – especially as its Singapore operations look relatively insulated against regional currency fluctuations, and instead stand to benefit from cyclical factors (weak MYR, lower fuel prices), in our view.

Singapore Budget 2016 to favour the staples

Meanwhile, we expect overall consumer spending in Singapore to be affected negatively by the slowdown in the broader economy. However, consumer staples stocks are likely to be key beneficiaries of the Singapore Budget 2016, where the government announced several welfare measures (Silver Support scheme, GST vouchers, income tax rebates) to cushion the impact of a downturn in the economy on households.

We have Outperform (2) ratings for Sheng Siong and BreadTalk, a Hold (3) rating on OSIM and an Underperform (4) rating on Super Group.

Changes in guidance

The consumer stocks under our coverage do not provide explicit guidance. For Sheng Siong, we forecast 2016 revenue growth of 8.7% YoY and an improvement in its operating margin to 9.5% (2015: 8.7%). Management said it is committed to a dividend payout ratio of up to 90% for 2016 (our 2016 forecast: 90%).

For Super Group, we forecast 2016 revenue growth of 2.5% YoY (a marginal turnaround from the 5.6% YoY decline in revenue in 2015), as we expect its key branded-consumer segment (our 2016 forecast: +2.0% YoY) to continue to face headwinds, and the gross margin to be stable YoY at 35.2% (2015: 35.2%).

For BreadTalk, we forecast 2016 revenue growth of 4.5% YoY, led by a positive same-store-sales growth for its Bakery and Restaurant businesses. We also expect operating margin to improve 1.4pp to 5.9% in 2016, due to the closure of its underperforming Ramen Play outlets in 2015.

For OSIM, we forecast a 10% YoY decline in revenue for 2016, as we remain cautious on the potential sales demand for its new massage chair, but expect a 2% YoY increase in its net profit in absence of one-off losses and lower legal fees. We expect management to maintain the dividend per share amount of SGD6.0 cents.

Healthcare: expansion plans on track

Raffles Medical's 4Q15 results were in line with our expectations. The net profit increased by 3.2% YoY to SGD22.7m on a 14.7% YoY increase in revenue and a 4.2pp decline in the operating margin.

Contribution from recent ISOS acquisition

The 4Q15 revenue trends surprised positively, mainly due to a stronger-than-expected contribution from the completed acquisition of its International SOS clinics in October 2015. Accordingly, staff costs (4Q15: up 15.9% YoY) rose in tandem.

Raffles Medical: 4Q15 results summary

(SGDm)	4Q14	1Q15	2Q15	3Q15	4Q15	YoY (%)
Revenue	100.0	95.0	99.3	101.5	114.7	14.7
Operating profit	26.2	17.7	19.2	18.5	25.3	(3.6)
Operating-profit margin (%)	26.2	18.6	19.3	18.2	22.0	-4.2 p.p
EBITDA	29.0	20.6	22.2	21.7	28.8	(0.6)
EBITDA margin (%)	29.0	21.7	22.4	21.4	25.1	-3.9 p.p
Net profit	22.0	15.0	15.9	15.6	22.7	3.2

Source: Company

Transforming into a regional healthcare play

As flagged in our recent note (*The next stage, 4 February 2016*), we see the ISOS acquisition as an early strategic move, giving Raffles Medical access to 3 new markets while leveraging its corporate client base. We think the company is in the nascent stages of becoming a regional healthcare play.

Management highlighted that all of the company's key expansion projects are on track, and reaffirmed that the Holland Village development should be operational in early-2Q16. In terms of its China plans, management expects to begin the construction of the company's Shanghai hospital in mid-2016 and continues to target its completion by 2018. Meanwhile, management said it is still in negotiations to develop a hospital in Shenzhen. We believe the company remains keen on the potential project given the proximity of one of its ISOS clinics in Shekou.

We remain Positive on the sector

Private healthcare services demand should remain healthy, spurred by a shortage of capacity in the public sector

We reiterate our Positive view on the Singapore healthcare sector, with an Outperform (2) rating on Raffles Medical. We expect demand for private healthcare services to remain robust in the near term, driven by a shortage of capacity in the public sector, as well as favourable government policies allowing for the "portability" of subsidies to the private healthcare market. Over the longer term, we believe demographic trends in Singapore point to a sustained need for a quality healthcare system, and we expect Raffles Medical to be a beneficiary of these trends.

Changes in guidance

For 2016, while the company does not provide explicit guidance, we forecast its revenue growth to remain strong (our 2016 forecast: 14.5% YoY), boosted by the full-year contribution from its ISOS clinics, a ramp-up in the patient load at its Shaw Centre clinic, as well as the opening of its Holland Village development in 2Q16. We forecast revenue growth for its healthcare services segment (2016E: 17.1% YoY) to outpace that for its hospital services segment (2016E: 12.6%), ahead of the expected completion of its hospital extension in 2H17.

Key sector risks

Consumer: The main risks to our sector view and the stocks under our coverage would be: 1) higher-than-expected labour costs, 2) increased competition in the sector, and 3) execution risks with regard to overseas expansion plans.

Healthcare: the following are the key downside risks to our sector view: 1) a shortage of clinical care staff in Singapore, and 2) unfavourable regulatory policies implemented by the government. Positive regulatory policies in Singapore would be a key upside risk to our view.

Land Transport Services: an evolving landscape

Jame Osman (65) 6321 3092
(jame.osman@sg.daiwacm.com)

Results and operational trends

2016: a pivotal year for Singapore public transport

While CDG reported 4Q15 results that were broadly in line with our forecasts, SMRT's 3Q FY16 results were above.

Singapore Land Transport: 4Q15 results review

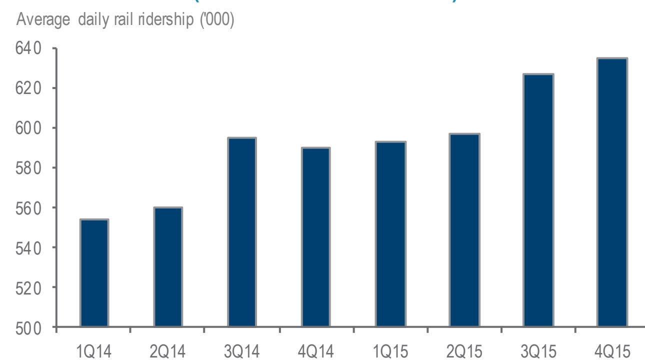
% YoY	Revenue	Operating profit	Operating margin	Net profit
CDG	*1.5*	*(0.8)*	*-0.2p.p*	*4.7*
SMRT	*4.6*	*46.4*	*4p.p*	*63.5*

Source: Companies

Rail segment could see shift in ridership

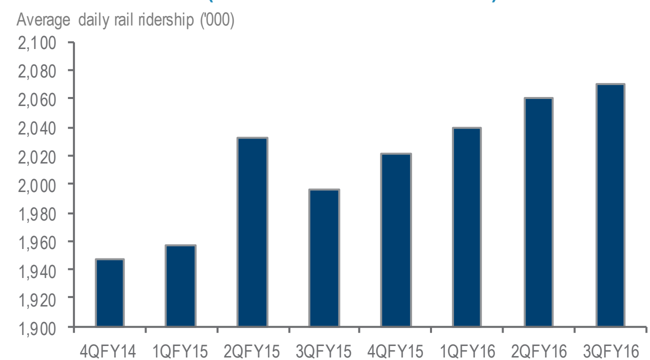
While CDG's 4Q15 results were dragged down by start-up costs associated with the opening of the DTL 2 in December 2015, as well as preparations for the launch of the upcoming DTL 3, leading to a weaker-than-expected operating margin, SMRT's rail segment surprised positively, which we attribute to higher government grants booked during 3Q FY16, as well as lower electricity and diesel costs.

CDG: ADR trends (combined NEL and DTL1)



Source: Company

SMRT: ADR trends (combined NSEWL and CCL)



Source: Company

Despite the divergent performances for the period, we remain cautious on SMRT's rail prospects and optimistic on CDG, mainly due to: 1) SMRT's elevated rail maintenance costs, which management still expects to increase to 50% of rail-segment revenue by the end of FY16 (3Q FY16: 43%), 2) the opening of DTL2 in December 2015, which we had previously highlighted could result in a shift in ridership market share, away from SMRT's North-South East-West lines, and 3) the impact of a 1.9% cut in fares in December 2015, which could impact both operators, although ridership growth at CDG's lines could offset this.

Bus segment still focusing on the move to a new model

Both CDG and SMRT's bus segments fared well during the December quarter period (CDG's bus segment operating profit up 5.8% YoY; SMRT posted SGD3.4m in operating profit vs. a 3Q FY15 operating loss of SGD0.5m), boosted by ridership growth as well as public fare price increases (3.5% increase from April 2015).

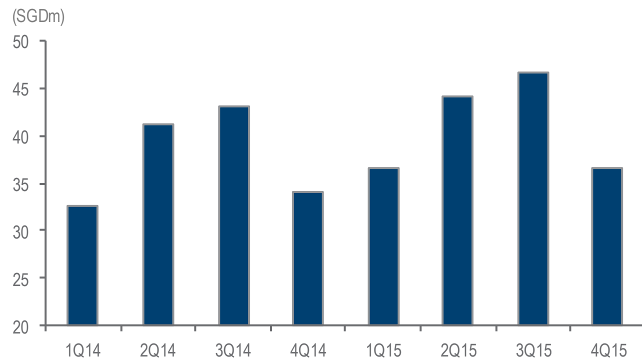
However, we believe the focus remains on the transition of the segment to the new government contracting model, which we expect to happen in September 2016. While we believe both operators will be net beneficiaries of the new operating landscape, CDG is likely to benefit more mainly as it is more exposed to the bus segment (32% of Singapore revenue vs. 19% for SMRT). In addition, the company has experience in overseas markets such as the UK and Australia, where similar models have been implemented, should also

give it a solid base from which to navigate the new operational landscape over the next few years, in our view.

Taxis: still resilient despite Uber rise

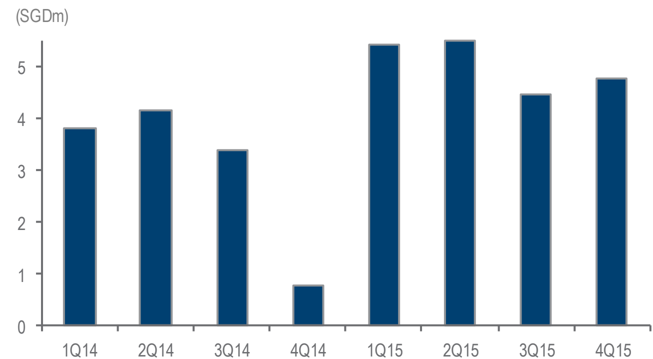
Despite investor concerns surrounding the impact of private car hire services on the businesses of the taxi companies in Singapore, both CDG and SMRT reported resilient operating performances as well as fleet utilisation rates (CDG: around 99.2%, while SMRT: around 95%).

CDG: taxi segment operating profit



Source: Company

SMRT: taxi segment operating profit



Source: Company

Looking ahead, we expect the Singapore taxi market to remain relatively resilient to an increase in competition from such services, which we believe fulfil excess demand caused by an undersupply, as detailed in our note (*ComfortDelGro: Singapore taxi resilient, 12 October 2015*). However, we believe SMRT's taxi-segment performance in 2016 is more likely to be hindered by muted fleet growth as a result of challenges in fulfilling service standards set by the government.

Based on the latest report by the regulator (for January to September 2015), only operators ComfortDelGro and Trans-Cab were deemed eligible to expand their fleets by the 2% cap in 1H16. Further, SMRT was fined SGD21.4k for not meeting the minimum daily mileage requirements.

Positive sector view; we prefer CDG over SMRT

We have a Positive rating on the Singapore Land Transport Services Sector, predicated on our view that policy reform and government investment in public transport infrastructure augurs well for the operators, both in the near and long term. Over the near term, we prefer CDG over SMRT, mainly as the former is more exposed to the bus segment (32% of Singapore revenue vs. SMRT's 19%), for which there is greater clarity at this stage. CDG's experience in overseas markets such as the UK and Australia, where similar models have been implemented, should also give it a solid base from which to navigate the new operational landscape over the next few years, in our view.

We believe CDG's record of consistent earnings growth (4.1% net profit CAGR over 2005-15), superior free-cash-flow profile, strong balance sheet (net cash of SGD229.2m as at end-2015 vs. SMRT's net debt of SGD683.4m as at 3Q FY16) and its 2016E dividend yield of 3.4% remain attractive attributes, even before considering the stock's 2016E PER of 18.9x (vs. SMRT's 23.0x for FY17E). Further, we expect the company to see greater rail segment revenue growth over the medium term, driven by the opening of DTL 3 as well as the progressive ramp-up of both DTL 2 and 1. Last, we see greater potential earnings-growth catalysts for CDG from overseas acquisitions or expansion, given the excess capital it should have on hand post-GCM.

Key sector risks

The main risks to our sector view and the stocks under our coverage would be: 1) unfavourable shifts in the regulatory landscape, which would result in policies that have an adverse impact on the businesses of the operators, 2) a shortage of skilled labour or an increase in wage levels leading to higher staff costs, and 3) a sharp increase in fuel prices.

Valuations

Singapore: valuations

BBG code	Company	Rating	Price (LC) 6-Apr-16	Target price (LC)	Upside/ downside (%)	Mkt. cap (USDm)	PER (x) 2016E	PER (x) 2017E	PBR (x) 2016E	PBR (x) 2017E	Dividend yields (%) 2016E	Dividend yields (%) 2017E
Banks												
DBS SP	DBS Group	Bu)	15.03	20.3	35.1	27,827	8.5	7.8	0.9	0.8	4.5%	4.9%
OCBC SP	Oversea-Chinese Banking Corporation	Buy	8.72	11	26.1	26,824	9.6	9.1	1.0	1.0	4.1%	4.6%
UOB SP	United Overseas Bank	Buy	18.71	24.6	31.5	22,084	9.5	8.9	1.0	0.9	4.0%	4.3%
Developers												
HKL SP	Hongkong Land	Buy	5.91	8.5	43.8	13,905	15.9	14.0	0.5	0.5	3.4%	3.6%
CAPL SP	CapitaLand	Buy)	3.02	3.94	30.5	9,479	14.6	12.7	0.7	0.7	3.1%	3.3%
CIT SP	City Developments	Buy	8.43	12.35	46.5	5,647	10.6	10.3	0.8	0.8	1.9%	1.9%
FCL SP	Frasers Centrepoint	Outperform	1.68	1.98	17.9	3,576	9.1	17.3	0.7	0.7	5.1%	5.1%
OUE SP	OUE	Buy	1.675	3	79.1	1,115	12.5	19.0	0.4	0.4	2.4%	1.8%
Telecoms												
ST SP	Singapore Telecom	Hold	3.77	4.05	7.4	44,372	14.2	13.4	2.2	2.2	5.3%	5.6%
STH SP	StarHub	Sell	3.33	3.02	-9.3	4,252	16.4	17.4	29.8	32.4	6.0%	6.0%
M1 SP	M1	Buy	2.62	2.94	12.2	1,809	13.2	12.7	5.6	5.3	6.8%	7.1%
Offshore Marine												
KEP SP	Keppel Corp	Hold	5.65	5.68	0.5	7,514	9.5	9.6	0.9	0.8	4.2%	4.4%
SCI SP	Sembcorp Industries	Underperform	2.89	2.17	-24.9	3,805	10.3	9.5	0.8	0.8	4.2%	4.2%
YZJSGD SP	Yangzijiang Shipbuilding	Underperform	0.945	0.89	-5.8	2,668	7.4	7.2	0.7	0.7	4.0%	4.3%
SMM SP	SembCorp Marine	Sell	1.565	1.01	-35.5	2,409	14.5	13.8	1.4	1.3	1.9%	2.6%
EZI SP	Ezion Holdings	Hold	0.535	0.49	-8.4	622	4.9	4.0	0.5	0.4	0.0%	0.3%
COS SP	Cosco Corp Singapore	Sell	0.34	0.3	-11.8	561	50.9	57.2	0.9	0.9	0.0%	0.0%
PACRA SP	Pacific Radiance	Sell	0.335	0.24	-28.4	179	54.9	19.2	0.4	0.4	4.1%	4.1%
Vard SP	Vard Holdings	Sell	0.182	0.115	-36.8	158	-8.5	-11.7	0.4	0.4	0.0%	0.0%
REITS												
CT SP	CapitaLand Mall Trust	Hold	2.11	2.18	3.3	5,509	23.4	26.1	1.1	1.1	5.3%	5.3%
AREIT SP	Ascendas Real Estate Investment Trust	Outperform	2.37	2.49	5.1	4,706	13.5	12.6	1.1	1.1	7.1%	7.2%
CCT SP	CapitaLand Commercial Trust	Underperform	1.45	1.31	-9.7	3,165	-71.7	1236.1	0.9	0.9	6.1%	6.0%
SUN SP	Suntec REIT	Underperform	1.655	1.49	-10.0	3,109	-29.8	-48.2	0.8	0.9	5.9%	5.6%
KREIT SP	Keppel REIT	Underperform	1	0.88	-12.0	2,418	-9.4	-16.8	0.8	0.9	6.8%	6.5%
MINT SP	Mapletree Industrial Trust	Outperform	1.58	1.63	3.2	2,070	15.1	14.7	1.2	1.2	6.9%	7.1%
MLT SP	Mapletree Logistics Trust	Outperform	1.01	1.04	3.0	1,856	14.0	13.8	1.0	1.0	7.4%	7.5%
FCT SP	Frasers Centrepoint Trust	Outperform	1.995	2.11	5.8	1,353	31.5	6.8	1.1	1.0	5.9%	5.9%
ART SP	Ascott Residence Trust	Outperform	1.095	1.21	10.5	1,338	14.1	13.9	0.8	0.8	7.7%	7.9%
SGREIT SP	Starhill Global REIT	Outperform	0.785	0.84	7.0	1,261	13.3	12.4	0.8	0.8	6.5%	6.6%
CDREIT SP	CDL Hospitality Trusts	Buy	1.31	1.6	22.1	961	10.7	6.4	0.8	0.8	7.7%	8.3%
CRCT SP	CapitaLand Retail China Trust	Hold	1.44	1.34	-6.9	906	14.5	10.0	0.8	0.8	7.4%	7.6%
CREIT SP	Cambridge Industrial Trust	Outperform	0.55	0.59	7.3	535	12.4	11.8	0.8	0.8	8.2%	8.6%
AGT SP	Accordia Golf Trust	Buy	0.61	0.87	42.6	494	6.9	7.0	0.6	0.6	11.0%	10.9%
Consumer												
CD SP	ComfortDelGro Corp	Buy	2.85	3.59	26.0	4,505	18.8	17.0	2.5	2.4	3.5%	3.8%
RFMD SP	Raffles Medical Group	Outperform	4.48	4.7	4.9	1,882	30.5	24.6	3.9	3.6	1.3%	1.6%
MRT SP	SMRT Corp	Underperform	1.48	1.41	-4.7	1,659	21.5	23.0	2.5	2.4	2.6%	2.4%
SSG SP	Sheng Siong Group	Outperform	0.84	0.94	11.9	930	18.9	18.5	4.9	4.7	4.8%	4.9%
SUPER SP	Super Group	Underperform	0.96	0.65	-32.3	789	20.6	19.5	2.0	1.9	2.4%	2.6%
OSIM SP	OSIM International	Hold	1.37	1.32	-3.6	786	20.3	19.2	2.6	2.6	4.4%	4.4%
Bread SP	BreadTalk Group	Outperform	1.03	1.18	14.6	214	17.1	12.7	2.0	1.8	1.5%	1.5%

Source: Daiwa forecasts, Bloomberg

- Daiwa Securities group subsidiary Daiwa PI Partners Co.Ltd. has extended to Accordia Golf Co, Ltd.("Accordia Golf") a loan facility with stock acquisition rights.
- Another Daiwa Securities group subsidiary, Daiwa Real Estate Asset Management Co. Ltd., has entered into an asset management agreement to provide advice to a godo kaisha SPC established for the purpose of acquiring from Accordia Golf shares in Accordia Golf subsidiaries owning golf courses. Daiwa Real Estate Asset Management Co. Ltd. owns a 51% stake in the trustee-manager that assumes the role of trustee and asset manager of Accordia Golf Trust, a tokumei kumiai (silent partnership) investor in the SPC. (Accordia Golf owns a 49% stake in the trustee-manager).
- When Accordia Golf Trust was listed on the Singapore Exchange, Daiwa Securities group was one of the underwriters and sellers of Accordia Golf Trust units in Japan and abroad (Daiwa Securities Co. Ltd. was sole seller in Japan). As a joint global coordinator, Daiwa Securities group subsidiary Daiwa Capital Markets Singapore Limited provided general advice concerning Accordia Golf Trust, including with regard to structuring the trust vehicle.

When a report covers six or more subject companies please access important disclosures for Daiwa Capital Markets Hong Kong Limited at **http://www.daiwacm.com/hk/research_disclaimer.html** or contact your investment representative or Daiwa Capital Markets Hong Kong Limited at Level 26, One Pacific Place, 88 Queensway, Hong Kong

Daiwa's Asia Pacific Research Directory

HONG KONG

Name	Phone	Email
Takashi FUJIKURA	(852) 2848 4051	takashi.fujikura@hk.daiwacm.com
Regional Research Head		
Kosuke MIZUNO	(852) 2848 4949 / (852) 2773 8273	kosuke.mizuno@hk.daiwacm.com
Regional Research Co-head		
John HETHERINGTON	(852) 2773 8787	john.hetherington@hk.daiwacm.com
Regional Deputy Head of Asia Pacific Research		
Rohan DALZIELL	(852) 2848 4938	rohan.dalziell@hk.daiwacm.com
Regional Head of Product Management		
Kevin LAI	(852) 2848 4926	kevin.lai@hk.daiwacm.com
Chief Economist for Asia ex-Japan; Macro Economics (Regional)		
Junjie TANG	(852) 2773 8736	junjie.tang@hk.daiwacm.com
Macro Economics (China)		
Jonas KAN	(852) 2848 4439	jonas.kan@hk.daiwacm.com
Head of Hong Kong and China Property		
Cynthia CHAN	(852) 2773 8243	cynthia.chan@hk.daiwacm.com
Property (China)		
Leon QI	(852) 2532 4381	leon.qi@hk.daiwacm.com
Banking (Hong Kong/China); Broker (China); Insurance (China)		
Anson CHAN	(852) 2532 4350	anson.chan@hk.daiwacm.com
Consumer (Hong Kong/China)		
Jamie SOO	(852) 2773 8529	jamie.soo@hk.daiwacm.com
Gaming and Leisure (Hong Kong/China)		
Dennis IP	(852) 2848 4068	dennis.ip@hk.daiwacm.com
Power; Utilities; Renewables and Environment (Hong Kong/China)		
John CHOI	(852) 2773 8730	john.choi@hk.daiwacm.com
Head of Hong Kong and China Internet; Regional Head of Small/Mid Cap		
Kelvin LAU	(852) 2848 4467	kelvin.lau@hk.daiwacm.com
Head of Automobiles; Transportation and Industrial (Hong Kong/China)		
Brian LAM	(852) 2532 4341	brian.lam@hk.daiwacm.com
Transportation – Railway; Construction and Engineering (China)		
Jibo MA	(852) 2848 4489	jibo.ma@hk.daiwacm.com
Head of Custom Products Group		
Thomas HO	(852) 2773 8716	thomas.ho@hk.daiwacm.com
Custom Products Group		

PHILIPPINES

Name	Phone	Email
Bianca SOLEMA	(63) 2 737 3023	bianca.solema@dbpdaiwacm.com.ph
Utilities and Energy		

SOUTH KOREA

Name	Phone	Email
Sung Yop CHUNG	(82) 2 787 9157	sychung@kr.daiwacm.com
Pan-Asia Co-head/Regional Head of Automobiles and Components; Automobiles; Shipbuilding; Steel		
Mike OH	(82) 2 787 9179	mike.oh@kr.daiwacm.com
Banking; Capital Goods (Construction and Machinery)		
Iris PARK	(82) 2 787 9165	iris.park@kr.daiwacm.com
Consumer/Retail		
SK KIM	(82) 2 787 9173	sk.kim@kr.daiwacm.com
IT/Electronics – Semiconductor/Display and Tech Hardware		
Thomas Y KWON	(82) 2 787 9181	yskwon@kr.daiwacm.com
Pan-Asia Head of Internet & Telecommunications; Software – Internet/On-line Game		
Kevin JIN	(82) 2 787 9168	kevin.jin@kr.daiwacm.com
Small/Mid Cap		

TAIWAN

Name	Phone	Email
Rick HSU	(886) 2 8758 6261	rick.hsu@daiwacm-cathay.com.tw
Head of Regional Technology; Head of Taiwan Research; Semiconductor/IC Design (Regional)		
Christie CHIEN	(886) 2 8758 6257	christie.chien@daiwacm-cathay.com.tw
Banking; Insurance (Taiwan); Macro Economics (Regional)		
Steven TSENG	(886) 2 8758 6252	steven.tseng@daiwacm-cathay.com.tw
IT/Technology Hardware (PC Hardware)		
Christine WANG	(886) 2 8758 6249	christine.wang@daiwacm-cathay.com.tw
IT/Technology Hardware (Automation); Pharmaceuticals and Healthcare; Consumer		
Kylie HUANG	(886) 2 8758 6248	kylie.huang@daiwacm-cathay.com.tw
IT/Technology Hardware (Handsets and Components)		
Helen CHIEN	(886) 2 8758 6254	helen.chien@daiwacm-cathay.com.tw
Small/Mid Cap		

INDIA

Name	Phone	Email
Punit SRIVASTAVA	(91) 22 6622 1013	punit.srivastava@in.daiwacm.com
Head of India Research; Strategy; Banking/Finance		
Saurabh MEHTA	(91) 22 6622 1009	saurabh.mehta@in.daiwacm.com
Capital Goods; Utilities		

SINGAPORE

Name	Phone	Email
Ramakrishna MARUVADA	(65) 6499 6543	ramakrishna.maruvada@sg.daiwacm.com
Head of Singapore Research; Telecommunications (China/ASEAN/India)		
Royston TAN	(65) 6321 3086	royston.tan@sg.daiwacm.com
Oil and Gas; Capital Goods		
David LUM	(65) 6329 2102	david.lum@sg.daiwacm.com
Banking; Property and REITs		
Shane GOH	(65) 64996546	shane.goh@sg.daiwacm.com
Small/Mid Cap (Singapore)		
Jame OSMAN	(65) 6321 3092	jame.osman@sg.daiwacm.com
Telecommunications (ASEAN/India); Pharmaceuticals and Healthcare; Consumer (Singapore)		

Daiwa's Offices

Office / Branch / Affiliate	Address	Tel	Fax
DAIWA SECURITIES GROUP INC			
HEAD OFFICE	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6753	(81) 3 5555 3111	(81) 3 5555 0661
Daiwa Securities Trust Company	One Evertrust Plaza, Jersey City, NJ 07302, U.S.A.	(1) 201 333 7300	(1) 201 333 7726
Daiwa Securities Trust and Banking (Europe) PLC (Head Office)	5 King William Street, London EC4N 7JB, United Kingdom	(44) 207 320 8000	(44) 207 410 0129
Daiwa Europe Trustees (Ireland) Ltd	Level 3, Block 5, Harcourt Centre, Harcourt Road, Dublin 2, Ireland	(353) 1 603 9900	(353) 1 478 3469
Daiwa Capital Markets America Inc. New York Head Office	Financial Square, 32 Old Slip, New York, NY10005, U.S.A.	(1) 212 612 7000	(1) 212 612 7100
Daiwa Capital Markets America Inc. San Francisco Branch	555 California Street, Suite 3360, San Francisco, CA 94104, U.S.A.	(1) 415 955 8100	(1) 415 956 1935
Daiwa Capital Markets Europe Limited, London Head Office	5 King William Street, London EC4N 7AX, United Kingdom	(44) 20 7597 8000	(44) 20 7597 8600
Daiwa Capital Markets Europe Limited, Frankfurt Branch	Neue Mainzer Str. 1, 60311 Frankfurt/Main, Germany	(49) 69 717 080	(49) 69 723 340
Daiwa Capital Markets Europe Limited, Paris Representative Office	17, rue de Surène 75008 Paris, France	(33) 1 56 262 200	(33) 1 47 550 808
Daiwa Capital Markets Europe Limited, Geneva Branch	50 rue du Rhône, P.O.Box 3198, 1211 Geneva 3, Switzerland	(41) 22 818 7400	(41) 22 818 7441
Daiwa Capital Markets Europe Limited, Moscow Representative Office	Midland Plaza 7th Floor, 10 Arbat Street, Moscow 119002, Russian Federation	(7) 495 641 3416	(7) 495 775 6238
Daiwa Capital Markets Europe Limited, Bahrain Branch	7th Floor, The Tower, Bahrain Commercial Complex, P.O. Box 30069, Manama, Bahrain	(973) 17 534 452	(973) 17 535 113
Daiwa Capital Markets Hong Kong Limited	Level 28, One Pacific Place, 88 Queensway, Hong Kong	(852) 2525 0121	(852) 2845 1621
Daiwa Capital Markets Singapore Limited	6 Shenton Way #26-08, OUE Downtown 2, Singapore 068809, Republic of Singapore	(65) 6220 3666	(65) 6223 6198
Daiwa Capital Markets Australia Limited	Level 34, Rialto North Tower, 525 Collins Street, Melbourne, Victoria 3000, Australia	(61) 3 9916 1300	(61) 3 9916 1330
DBP-Daiwa Capital Markets Philippines, Inc	18th Floor, Citibank Tower, 8741 Paseo de Roxas, Salcedo Village, Makati City, Republic of the Philippines	(632) 813 7344	(632) 848 0105
Daiwa-Cathay Capital Markets Co Ltd	14/F, 200, Keelung Road, Sec 1, Taipei, Taiwan, R.O.C.	(886) 2 2723 9698	(886) 2 2345 3638
Daiwa Securities Capital Markets Korea Co., Ltd.	20 Fl.& 21Fl. One IFC, 10 Gukjegeumyung-Ro, Yeongdeungpo-gu, Seoul, Korea	(82) 2 787 9100	(82) 2 787 9191
Daiwa Securities Co. Ltd., Beijing Representative Office	Room 301/302，Kerry Center，1 Guanghua Road，Chaoyang District，Beijing 100020, People's Republic of China	(86) 10 6500 6688	(86) 10 6500 3594
Daiwa (Shanghai) Corporate Strategic Advisory Co. Ltd.	44/F, Hang Seng Bank Tower, 1000 Lujiazui Ring Road, Pudong, Shanghai China 200120 , People's Republic of China	(86) 21 3858 2000	(86) 21 3858 2111
Daiwa Securities Co. Ltd., Bangkok Representative Office	18th Floor, M Thai Tower, All Seasons Place, 87 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand	(66) 2 252 5650	(66) 2 252 5665
Daiwa Capital Markets India Private Ltd	10th Floor, 3 North Avenue, Maker Maxity, Bandra Kurla Complex, Bandra East, Mumbai – 400051, India	(91) 22 6622 1000	(91) 22 6622 1019
Daiwa Securities Co. Ltd., Hanoi Representative Office	Suite 405, Pacific Palace Building, 83B, Ly Thuong Kiet Street, Hoan Kiem Dist. Hanoi, Vietnam	(84) 4 3946 0460	(84) 4 3946 0461
DAIWA INSTITUTE OF RESEARCH LTD			
HEAD OFFICE	15-6, Fuyuki, Koto-ku, Tokyo, 135-8460, Japan	(81) 3 5620 5100	(81) 3 5620 5603
MARUNOUCHI OFFICE	Gran Tokyo North Tower, 1-9-1, Marunouchi, Chiyoda-ku, Tokyo, 100-6756	(81) 3 5555 7011	(81) 3 5202 2021
New York Research Center	11th Floor, Financial Square, 32 Old Slip, NY, NY 10005-3504, U.S.A.	(1) 212 612 6100	(1) 212 612 8417
London Research Centre	3/F, 5 King William Street, London, EC4N 7AX, United Kingdom	(44) 207 597 8000	(44) 207 597 8550

Important Disclosures and Disclaimer

This publication is produced by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, and distributed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates, except to the extent expressly provided herein. This publication and the contents hereof are intended for information purposes only, and may be subject to change without further notice. Any use, disclosure, distribution, dissemination, copying, printing or reliance on this publication for any other purpose without our prior consent or approval is strictly prohibited. Neither Daiwa Securities Group Inc. nor any of its respective parent, holding, subsidiaries or affiliates, nor any of its respective directors, officers, servants and employees, represent nor warrant the accuracy or completeness of the information contained herein or as to the existence of other facts which might be significant, and will not accept any responsibility or liability whatsoever for any use of or reliance upon this publication or any of the contents hereof. Neither this publication, nor any content hereof, constitute, or are to be construed as, an offer or solicitation of an offer to buy or sell any of the securities or investments mentioned herein in any country or jurisdiction nor, unless expressly provided, any recommendation or investment opinion or advice. Any view, recommendation, opinion or advice expressed in this publication may not necessarily reflect those of Daiwa Securities Group Inc., and/or its affiliates nor any of its respective directors, officers, servants and employees except where the publication states otherwise. This research report is not to be relied upon by any person in making any investment decision or otherwise advising with respect to, or dealing in, the securities mentioned, as it does not take into account the specific investment objectives, financial situation and particular needs of any person.

Daiwa Securities Group Inc., its subsidiaries or affiliates, or its or their respective directors, officers and employees from time to time have trades as principals, or have positions in, or have other interests in the securities of the company under research including market making activities, derivatives in respect of such securities or may have also performed investment banking and other services for the issuer of such securities. The following are additional disclosures.

Ownership of Securities
For "Ownership of Securities" information, please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*.
Investment Banking Relationship
For "Investment Banking Relationship", please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*.

Japan
Daiwa Securities Co. Ltd. and Daiwa Securities Group Inc.
Daiwa Securities Co. Ltd. is a subsidiary of Daiwa Securities Group Inc.
Investment Banking Relationship
Within the preceding 12 months, the subsidiaries and/or affiliates of Daiwa Securities Group Inc. * has lead-managed public offerings and/or secondary offerings (excluding straight bonds) of the securities of the following companies: Modern Land (China) Co. Ltd (1107 HK); econtext Asia Ltd (1390 HK); GF Securities Co Ltd (1776 HK); Mirae Asset Life Insurance Co Ltd (085620 KS); China Reinsurance Group Corporation (1508 HK).
*Subsidiaries of Daiwa Securities Group Inc. for the purposes of this section shall mean any one or more of: Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司), Daiwa Capital Markets Singapore Limited, Daiwa Capital Markets Australia Limited, Daiwa Capital Markets India Private Limited, Daiwa-Cathay Capital Markets Co., Ltd., Daiwa Securities Capital Markets Korea Co., Ltd.

Hong Kong
This research is distributed in Hong Kong by Daiwa Capital Markets Hong Kong Limited (大和資本市場香港有限公司) ("DHK") which is regulated by the Hong Kong Securities and Futures Commission. Recipients of this research in Hong Kong may contact DHK in respect of any matter arising from or in connection with this research.

Relevant Relationship (DHK)
DHK may from time to time have an individual employed by or associated with it serves as an officer of any of the companies under its research coverage.

Singapore
This research is distributed in Singapore by Daiwa Capital Markets Singapore Limited and it may only be distributed in Singapore to accredited investors, expert investors and institutional investors as defined in the Financial Advisers Regulations and the Securities and Futures Act (Chapter 289), as amended from time to time. By virtue of distribution to these category of investors, Daiwa Capital Markets Singapore Limited and its representatives are not required to comply with Section 36 of the Financial Advisers Act (Chapter 110) (Section 36 relates to disclosure of Daiwa Capital Markets Singapore Limited's interest and/or its representative's interest in securities). Recipients of this research in Singapore may contact Daiwa Capital Markets Singapore Limited in respect of any matter arising from or in connection with the research.

Australia
This research is distributed in Australia by Daiwa Capital Markets Australia Limited and it may only be distributed in Australia to wholesale investors within the meaning of the Corporations Act. Recipients of this research in Australia may contact Daiwa Capital Markets Stockbroking Limited in respect of any matter arising from or in connection with the research.

India
This research is distributed in India to Institutional Clients only by Daiwa Capital Markets India Private Limited (Daiwa India) which is an intermediary registered with Securities & Exchange Board of India as a Stock Broker, Merchant Bank and Research Analyst. Daiwa India, its Research Analyst and their family members and its associates do not have any financial interest save as disclosed or other undisclosed material conflict of interest in the securities or derivatives of any companies under coverage. Daiwa India and its associates may have received compensation for any products other than Investment Banking (as disclosed) or brokerage services from the subject company in this report during the past 12 months. Unless otherwise stated in BlueMatrix disclosure link at https://daiwa3.bluematrix.com/sellside/Disclosures.action, Daiwa India and its associates do not hold more than 1% of any companies covered in this research report.

There is no material disciplinary action against Daiwa India by any regulatory authority impacting equity research analysis activities as of the date of this report.

Taiwan
This research is distributed in Taiwan by Daiwa-Cathay Capital Markets Co., Ltd and it may only be distributed in Taiwan to institutional investors or specific investors who have signed recommendation contracts with Daiwa-Cathay Capital Markets Co., Ltd in accordance with the Operational Regulations Governing Securities Firms Recommending Trades in Securities to Customers. Recipients of this research in Taiwan may contact Daiwa-Cathay Capital Markets Co., Ltd in respect of any matter arising from or in connection with the research.

Philippines
This research is distributed in the Philippines by DBP-Daiwa Capital Markets Philippines, Inc. which is regulated by the Philippines Securities and Exchange Commission and the Philippines Stock Exchange, Inc. Recipients of this research in the Philippines may contact DBP-Daiwa Capital Markets Philippines, Inc. in respect of any matter arising from or in connection with the research. DBP-Daiwa Capital Markets Philippines, Inc. recommends that investors independently assess, with a professional advisor, the specific financial risks as well as the legal, regulatory, tax, accounting, and other consequences of a proposed transaction. DBP-Daiwa Capital Markets Philippines, Inc. may have positions or may be materially interested in the securities in any of the markets mentioned in the publication or may have performed other services for the issuers of such securities.
For relevant securities and trading rules please visit SEC and PSE links at *http://www.sec.gov.ph/irr/AmendedIRRfinalversion.pdf and http://www.pse.com.ph/* respectively.

Thailand
This research is distributed to only institutional investors in Thailand primarily by Thanachart Securities Public Company Limited ("TNS").

This report is prepared by analysts who are employed by Daiwa Securities Group Inc. and/or its non-U.S. affiliates. This report is provided to you for informational purposes only and it is not, and is not to be construed as, an offer or an invitation to make an offer to sell or buy any securities. Neither Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees accept any liability whatsoever for any direct or consequential loss arising from any use of this research or its contents.

The information and opinions contained herein have been compiled or arrived at from sources believed to be reliable. However, Thanachart Securities Public Company Limited, Daiwa Securities Group Inc. nor any of their respective parent, holding, subsidiaries or affiliates, nor any of their respective directors, officers, servants and employees make no representation or warranty, express or implied, as to their accuracy or completeness. Expressions of opinion herein are subject to change without notice. The use of any information, forecasts and opinions contained in this report shall be at the sole discretion and risk of the user.

Daiwa Securities Group Inc. and/or its non-U.S. affiliates perform and seek to perform business with companies covered in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates, their respective directors, officers, servants and employees may have positions and financial interest in securities mentioned in this research. Thanachart Securities Public Company Limited, Daiwa Securities Group Inc., their respective parent, holding, subsidiaries or affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this research. Therefore, investors should be aware of conflict of interest that may affect the objectivity of this research.

United Kingdom
This research report is produced by Daiwa Securities Co. Ltd. and/or its affiliates and is distributed in the European Union, Iceland, Liechtenstein, Norway and Switzerland. Daiwa Capital Markets Europe Limited is authorised and regulated by The Financial Conduct Authority ("FCA") and is a member of the London Stock Exchange and Eurex. This publication is intended for investors who are not Retail Clients in the United Kingdom within the meaning of the Rules of the FCA and should not therefore be distributed to such Retail Clients in the United Kingdom. Should you enter into investment business with Daiwa Capital Markets Europe's affiliates outside the United Kingdom, we are obliged to advise that the protection afforded by the United Kingdom regulatory system may not apply; in particular, the benefits of the Financial Services Compensation Scheme may not be available.

Daiwa Capital Markets Europe Limited has in place organisational arrangements for the prevention and avoidance of conflicts of interest. Our conflict management policy is available at *http://www.uk.daiwacm.com/about-us/corporate-governance-regulatory*.

Germany

This document is distributed in Germany by Daiwa Capital Markets Europe Limited, Niederlassung Frankfurt which is regulated by BaFin (Bundesanstalt fuer Finanzdienstleistungsaufsicht) for the conduct of business in Germany.

Bahrain
This research material is distributed in Bahrain by Daiwa Capital Markets Europe Limited, Bahrain Branch, regulated by The Central Bank of Bahrain and holds Investment Business Firm – Category 2 license and having its official place of business at the Bahrain World Trade Centre, South Tower, 7th floor, P.O. Box 30069, Manama, Kingdom of Bahrain. Tel No. +973 17534452 Fax No. +973 535113

United States
This report is distributed in the U.S. by Daiwa Capital Markets America Inc. (DCMA). It may not be accurate or complete and should not be relied upon as such. It reflects the preparer's views at the time of its preparation, but may not reflect events occurring after its preparation; nor does it reflect DCMA's views at any time. Neither DCMA nor the preparer has any obligation to update this report or to continue to prepare research on this subject. This report is not an offer to sell or the solicitation of any offer to buy securities. Unless this report says otherwise, any recommendation it makes is risky and appropriate only for sophisticated speculative investors able to incur significant losses. Readers should consult their financial advisors to determine whether any such recommendation is consistent with their own investment objectives, financial situation and needs. This report does not recommend to U.S. recipients the use of any of DCMA's non-U.S. affiliates to effect trades in any security and is not supplied with any understanding that U.S. recipients of this report will direct commission business to such non-U.S. entities. Unless applicable law permits otherwise, non-U.S. customers wishing to effect a transaction in any securities referenced in this material should contact a Daiwa entity in their local jurisdiction. Most countries throughout the world have their own laws regulating the types of securities and other investment products which may be offered to their residents, as well as a process for doing so. As a result, the securities discussed in this report may not be eligible for sales in some jurisdictions. Customers wishing to obtain further information about this report should contact DCMA: Daiwa Capital Markets America Inc., Financial Square, 32 Old Slip, New York, New York 10005 (Tel no. 212-612-7000).

Ownership of Securities
For "Ownership of Securities" information please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*.

Investment Banking Relationships
For "Investment Banking Relationships" please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*.

DCMA Market Making
For "DCMA Market Making" please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*.

Research Analyst Conflicts
For updates on "Research Analyst Conflicts" please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*. The principal research analysts who prepared this report have no financial interest in securities of the issuers covered in the report, are not (nor are any members of their household) an officer, director or advisory board member of the issuer(s) covered in the report, and are not aware of any material relevant conflict of interest involving the analyst or DCMA, and did not receive any compensation from the issuer during the past 12 months except as noted: no exceptions.

Research Analyst Certification
For updates on "Research Analyst Certification" and "Rating System" please visit BlueMatrix disclosure link at *https://daiwa3.bluematrix.com/sellside/Disclosures.action*. The views about any and all of the subject securities and issuers expressed in this Research Report accurately reflect the personal views of the research analyst(s) primarily responsible for this report (or the views of the firm producing the report if no individual analysts[s] is named on the report); and no part of the compensation of such analyst(s) (or no part of the compensation of the firm if no individual analyst[s)] is named on the report) was, is, or will be directly or indirectly related to the specific recommendations or views contained in this Research Report.

The following explains the rating system in the report as compared to relevant local indices, unless otherwise stated, based on the beliefs of the author of the report.
"1": the security could outperform the local index by more than 15% over the next 12 months.
"2": the security is expected to outperform the local index by 5-15% over the next 12 months.
"3": the security is expected to perform within 5% of the local index (better or worse) over the next 12 months.
"4": the security is expected to underperform the local index by 5-15% over the next 12 months.
"5": the security could underperform the local index by more than 15% over the next 12 months.

Disclosure of investment ratings

Rating	Percentage of total
Buy*	66.9%
Hold**	19.7%
Sell***	13.5%

Source: Daiwa
Notes: data is for single-branded Daiwa research in Asia (ex Japan) and correct as of 31 March 2016.
** comprised of Daiwa's Buy and Outperform ratings.*
*** comprised of Daiwa's Hold ratings.*
**** comprised of Daiwa's Underperform and Sell ratings.*

Additional information may be available upon request.

Japan - additional notification items pursuant to Article 37 of the Financial Instruments and Exchange Law
(This Notification is only applicable where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with us based on the information described in materials presented along with this document, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, we will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction.
- In some cases, we may also charge a maximum of ¥ 2 million (including tax) per year as a standing proxy fee for our deposit of your securities, if you are a non-resident of Japan.
- For derivative and margin transactions etc., we may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by us.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.
  *The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with us.

Corporate Name:	Daiwa Securities Co. Ltd.
	Financial instruments firm: chief of Kanto Local Finance Bureau (Kin-sho) No.108
Memberships:	Japan Securities Dealers Association, The Financial Futures Association of Japan
	Japan Securities Investment Advisers Association
	Type II Financial Instruments Firms Association