Flash Note | Singapore

Singapore strategy

Taking stock: Major themes in the Singapore market

Sectors and stocks we like
Oil & Gas
▪ Keppel Corp
▪ Sembcorp Marine
▪ Mermaid Maritime
Real Estate
▪ Oxley
▪ APAC Realty
▪ Sing Holdings
Early Education
▪ MindChamps
High-yield STI laggards
▪ ST Engineering
▪ Singtel
▪ ComfortDelGro

Event

Strengthening SGD: On April 13, the Monetary Authority of Singapore (MAS) moved to normalize Singapore's exchange rate policy, moving away from the neutral stance it has held since April 2016. In view of the Singapore economy continuing on a steady expansion path in 2018, the central bank will increase the slope of the Singdollar's nominal effective exchange rate (NEER) to allow for a modest and gradual appreciation, but the width of the policy band and the level at which it is centred will remain unchanged.

We expect the central bank's new stance to be supportive for the Singapore dollar and we expect continued trade tensions between the United States and other countries to drive additional fund flows towards the SGD, given Singapore's status as one of the last few remaining AAA rated sovereigns in the world. Alongside a cooling down of the Singapore en bloc market, we expect increased flows into Singapore equities with strong fundamentals and good yield accretion.

En bloc fever: Still hot? The en bloc fever, which started in May 2017, may lose its momentum towards the end of 2018. This year was off to a good start, with en bloc transactions extending its momentum with 20 transactions, totalling ~S$6bn, compared to 28 transactions in 2017, totalling ~S$8bn. We believe the momentum is likely to continue towards the end of the year before it tapers off thereafter.

Some of the cooling measures that may dampen the en bloc exuberance include: (1) the recent increase from 3% to 4% in the buyer's stamp duty on the marginal value above S$1mn for residential properties, (2) the sharp increase in development charges, by an average of 23% (ranging from 12% to 38%, depending on location), (3) requirements for traffic impact studies before obtaining approval from the LTA and (4) the increased scrutiny on loan facilities granted to developers (key covenants, LTV etc.). Furthermore, there is the risk that the government may tighten the existing cooling measures in light of the increasing divergence between public and private home prices.

Action

Property transaction volumes to pick up in 2018. While the collective sales momentum could slow towards the end of the year, we expect overall property transaction volumes to pick up, with sellers looking for new properties for both replacement and investments. We also can expect a significant portion of the S$8bn to flow back into the market via home sales in 2018 and early 2019. Additionally, we expect home prices to continue its climb, on the back of a favourable shift in the demand and supply dynamics of the property market.

Equity markets may also benefit. With the cash windfall from 2017's en bloc sales, we expect a portion of it to find its way into Singapore's equity market. Thus, we recommend engaging sectors with relatively strong fundamentals and are likely to benefit from the fund inflows. Sectors we like are oil & gas (Keppel Corp, Sembcorp Marine, Mermaid Maritime), early education (MindChamps), property (Oxley, APAC Realty, Sing Holdings) and high-yield STI laggards (ST Engineering, Singtel, ComfortDelGro).

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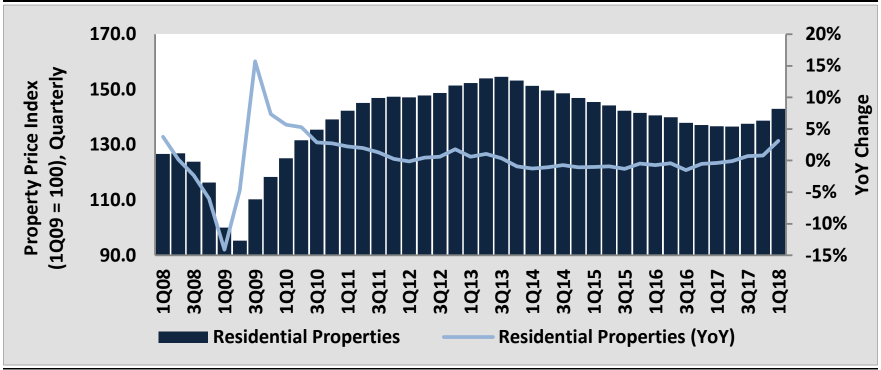
See the last page for important disclosures.

Figure 1: Singapore residential property price index (Residential properties – Whole Island)



Source: Urban Redevelopment Authority, KGI Research

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Rating	Definition
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BUY	>10% total return over the next 12 months
HOLD	-10% to +10% total return over the next 12 months
SELL	<-10% total return over the next 12 months

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