

Market Indicators

	17-Jan	18-Jan	21-Jan
Mkt. T/O (\$\$ mil)	943.2	890.7	897.3
Stock Advances	166	240	212
Stock Declines	205	137	181

Major Indices

	17-Jan	18-Jan	21-Jan
DJ Ind Avg	24,370.1	24,706.4	Close
S & P 500	2,636.0	2,670.7	Close
Nasdaq Comp	7,084.5	7,157.2	Close
Hang Seng	26,755.6	27,090.8	27,196.5

STI Index 3,220.56 (-0.12%)

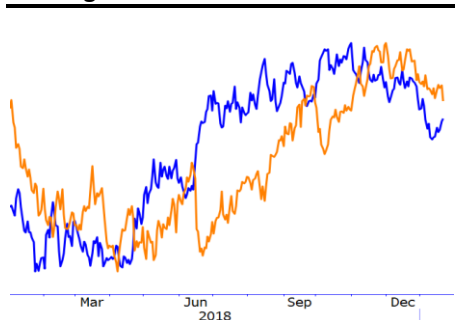


Source: Bloomberg

Commodities

	Current Price	% Chge from Close
Gold (SPOT) US\$ / oz	1,280.12	0.07%
Oil (NYMEX CWT1) US\$ / bbl	53.93	0.43%
Baltic Dry Index	1112	3.25%

Exchange Rates



Source: Bloomberg

Interest Rates

3-mth Sibor	1.886%
SGS (10 yr)	2.202%

KGI Market Ideas

Brent Oil prices should be at least US\$70. Brent oil prices plunged by as much as 40% in the last quarter of 2018, which we argue was driven mainly by geopolitical factors. Just before the Iran sanctions took effect in November 2018, Saudi Arabia's oil production reached a new all-time high of 10.6mbpd in October 2018. So, in addition to markets reacting negatively to the waivers given to eight countries under the Iran sanctions, demand-side concerns were heightened by weak economic data coming out from Asia and Europe.

However, the causes of the weak oil prices in 4Q18 are starting to reverse. On the supply-side, major producers have cut back by as much as 0.9mbpd in December 2018, led by cuts from OPEC members. Saudi Arabia cut production by almost 0.6mbpd and signalled further significant cuts in 2019. Furthermore, the International Energy Agency (IEA) now expects oil markets to turn to deficit by as early as 2Q19. There is the risk that the demand side may surprise on the downside, especially if China's slowdown accelerates, but we believe that is mitigated by the country's fiscal stimulus and tax cuts initiated recently. Overall, the oil markets supply-demand dynamics looks much more favourable now compared to 4Q18 and we expect Brent oil prices to trade at the minimum of US\$70 in 2019.

Tuan Sing Holdings (TSH SP): The property developer guided in its 3Q18 announcement that the completion of 18 Robinson office building before the end of 2018 would enable the group to realise a material developer's profit. Based on our calculations, 18 Robinson would result in a 8 SG cents surplus to its current 82 cents NAV. Applying a conservative 50% discount to a 90 cents RNAV implies a fair value of at least 45 cents, a 16% upside to TSH's current share price. We thus believe that its current share price offers an attractive short-term trade before the company announces its FY2018 results this Friday, 25 January. We have not accounted for its other key assets, which include the Grand Hyatt Melbourne, Hyatt Regency Perth and the Sime Darby Centre. These four assets accounted for 80% of the group's total property portfolio worth S\$2.4bn.

ComfortDelGro (CD SP): We note that institutional investors have been accumulating at \$2.10-2.30 levels. The latest to announce a significant stake was JPMorgan's ASEAN Equity fund, which added 2.37mn CD shares valued at S\$3.7mn in December 2018. Other notable funds that added in 4Q18 was Capital Research Management Company, a unit of Capital Group, which bought 44mn shares in 4Q18, according to Bloomberg data. CD currently offers an attractive 4.7% dividend yield and is due to report full-year results in the second week of February.

Sector Update, Company Update & Credit Note

- **REIThinking your strategy:** A choice between quality or cheap & high dividend yielding S-REITs - Page 4
- **CSE Global (CSE SP; BUY; S\$ 0.57):** Great start to the new year; 2018 infra order wins increased 44% YoY - Page 5
- **SIASP 3.22% 07/09/20 (SIA SP):** Short-Term Carry - Page 6
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KGI Securities Research Team

Recent In depth Regional Reports

21/1	SG Sembcorp Marine (SMM SP; BUY; TP: S\$ 2.50): Past cyclical troughs
21/1	TH Bangkok Bank (BBL TB; Outperform; TP: Bt 220.00): 4Q18 earnings review: improving asset quality
21/1	TH Central Pattana (CPN TB; Outperform; TP: Bt 87.00): Long term growth is clear
21/1	TH Kasikornbank (KBANK TB; Outperform; TP: Bt 208.00): The worst has already passed
21/1	TH Kiatnakin Bank (KKP TB; Neutral; TP: Bt 66.00): 4Q18 earnings review: Lower than expected
21/1	TH Workpoint Entertainment (WORK TB; Neutral; TP: Bt 25.25): Geared toward home shopping TV business
18/1	SG SIASP 3.22% 07/09/20 (SIA SP): Short-Term Carry
18/1	US Economics: Tactical buy US stocks
18/1	TW Global PMX (4551 TT; Outperform; TP: NT\$ 152.00): Robust 2019F EPS growth on track
18/1	TW Merida (9914 TT; Outperform; TP: NT\$ 168.00): Stronger e-bike order outlook
18/1	TW Quanta Computer Inc. (2382 TT; Neutral; TP: NT\$ 58.00): 4Q18 sales beat, but heavy operating margin pressure; cloud business to drive 2019F growth
18/1	HK Nissin Foods (1475 TT; Neutral; HK\$ 4.10): Growth momentum to continue in July-November 2018
18/1	TW TTY Biopharm (4105 TT; Outperform; TP: NT\$ 90.50): Long term intact
18/1	TH Krung Thai Card (KTC TB; Under Review; TP: Under Review): 4Q18 earnings review: Below expectation
18/1	TH True Corporation (TRUE TB; Under Review; TP: Under Review): 4Q18 earnings preview: Core earnings to grow YoY
17/1	TW ASPEED Technology (5274 TT; Neutral; TP: NT\$ 540.00): Pull-in demand resumes, but sustainability is key
17/1	TW TSMC (2330 TT; Outperform; TP: NT\$ 263.00): Reset 2019F expectations; focus on 2020F rebound
17/1	HK Ajisen (China) (538 HK; Neutral; TP: HK\$ 2.31): Three-year plan to enhance business
17/1	HK Man Wah (1999 HK; Neutral; TP: HK\$ 3.80): Negatives priced in, to some extent
17/1	TH Non-Bank Sector (Under Review): Sensitivity to impact from potential accounting change
17/1	TH Airports of Thailand (AOT TB; Outperform; TP: Bt 82.12): 1Q19 earnings preview: Solid performance
17/1	TH Pylon (PYLON TB; Outperform; TP: Bt 8.40): 4Q18 earnings preview: Gross margin to boost net profit
17/1	TH Seafco (SEAFKO TB; Outperform; TP: Bt 12.00): 4Q18 earnings preview: A good one
16/1	SG REThinking your strategy: A choice between quality or cheap & high dividend yielding S-REITs
16/1	SG CSE Global (CSE SP; BUY; S\$0.57): Great start to the new year; 2018 infra order wins increased 44% YoY
16/1	TW Strategy: Worst is yet to come
16/1	TW CSRC (2104 TT; Outperform; TP: NT\$ 48.00): Electronics segment to drive 2019-20F earnings uptrend
16/1	TW TUC (6274 TT; Outperform; TP: NT\$ 112.00): Sequential uptrend from 1Q19F
16/1	HK Q Technology (1478 HK; Neutral; TP: HK\$ 3.92): Profit warning, as expected, but decline exceeds estimates
16/1	CN/HK Economy: Credit expansion positive for market sentiment
16/1	TH Macroscopic: Move on to "Plan B" Brexit
16/1	TH C.P. All (CPALL TB; Outperform; TP: Bt 90.00): 4Q18 earnings preview: To grow YoY and QoQ
16/1	TH Tisco Financial Group (TISCO TB; Neutral; TP: Bt 92.00): Tougher year ahead
15/1	TW EMC (2383 TT; Outperform; NT\$ 99.00): Lackluster China networking demand; mobile device business recovery to support operations
15/1	TW Taiwan Paiho (9938 TT; Outperform; TP: NT\$ 88.00): Prospective return to growth & record-high EPS for 2019F
15/1	HK 361 Degrees (1361 HK; Neutral; TP: HK\$ 2.04): 4Q18 results miss; full-year earnings under pressure
15/1	HK China Education (839 HK; Outperform; HK\$ 13.50): Acquisition of Quancheng University in Shandong
15/1	CN/HK Stock Liquidity Monitor: Weekly data – Stock incentive & shareholding changes involving major shareholders
15/1	TH Commodities Update: OPEC+ supply cuts effective in January
15/1	TH Intouch Holdings (INTUCH TB; Outperform; TP: Bt 62.25): 4Q18 earnings preview: Still expect impressive dividend yield
15/1	TH Thaicom (THCOM TB; Underperform; TP: Bt 7.15): 4Q18 earnings preview: Long term outlook remains weak
15/1	TH Tisco Financial Group (TISCO TB; Neutral; TP: Bt 92.00): 4Q18 earnings review: Sharp rise in NPLs triggers concern
14/1	TW Telecom Sector (Neutral): 4Q18 earnings miss almost across the board
14/1	TW Delta Electronics (2308 TT; Outperform; TP: NT\$ 171.00): Resume earnings growth cycle
14/1	HK L'Occitane (973 HK; Neutral; TP: HK\$ 16.30): Acquisition of UK-based Elemis
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14/1	CH/HK A-share Weekly: Policy stimuli & trade talks progress to help market trough take shape
14/1	CN/HK Economy: Imports & exports slip on sluggish demand, but impact on A-shares limited
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REThinking your strategy

A choice between quality or cheap & high dividend yielding S-REITs

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- We explore Singapore listed REITs outside of KGI's REITs watch list that may appeal to investors with varying risk appetite.
- We have compiled and ranked a total of **40 S-REITs** according to the following criteria:
 - Highest dividend yield
 - Lowest P/B ratio compared to 5 year historical
 - Largest market capitalization
 - Highest annualized total returns since listing
- S-REITs highlighted in blue are those that are currently within our in-house watch list. We recommend these S-REITs for their stable and growing yearly DPUs, strong sponsors and quality assets.

Historically, quality S-REITs with higher annualized total returns (dividend + capital gains) since listing tend to be those that are larger in market capitalization and those backed by strong sponsors. These S-REITs also offer lower but more consistent dividend payments.

The cheapest S-REITs by P/B valuations are likely to be associated with higher dividend yields, but also entail a higher degree of risk. The most recent examples include Lippo Mall Indonesia Retail Trust and Sasseur REIT, whose 1 year share prices underperformed their peers due to broader market risks in the Indonesian and Chinese markets respectively. As a result, investors will have to weigh whether the 100-300bps spread over high-quality S-REITs justifies the potential share price losses, at an average of -13.5% for the past year, for the underperforming S-REITs.

Figure 1: Largest listed S-REITs by market capitalization

Company Name	Market Cap (\$\$ m)	Current P/B Ratio (x)	6M Average daily trading volume (\$\$ '000)	YTD Price Performance (%)	1 YR Price Performance (%)
CAPITALAND MALL TRUST	8,517	1.1	22,789	2.2	12.7
ASCENDAS REAL ESTATE INV TRT	8,461	1.3	27,662	5.8	-1.1
CAPITALAND COMMERCIAL TRUST	6,852	1.0	18,009	4.6	-5.2
SUNTEC REIT	4,994	0.9	11,320	4.5	-13.1
MAPLETREE COMMERCIAL TRUST	4,939	1.2	8,440	4.2	3.6
MAPLETREE LOGISTICS TRUST	4,775	1.2	10,097	5.6	-0.7
KEPPEL REIT	3,970	0.8	5,528	2.6	-8.6
MAPLETREE INDUSTRIAL TRUST	3,760	1.4	5,252	3.1	-4.8
MAPLETREE NORTH ASIA COMMERC	3,705	0.9	6,435	2.6	-6.4
FORTUNE REIT	3,115	0.6	529	5.2	-3.0
SPH REIT	2,634	1.1	850	2.0	-2.9
ASCOTT RESIDENCE TRUST	2,468	0.9	1,911	5.6	-8.1
FRASERS LOGISTICS & INDUSTRI	2,143	1.1	3,493	2.9	-7.1
FRASERS CENTREPOINT TRUST	2,087	1.1	1,975	3.7	-0.9
KEPPEL DC REIT	1,906	1.4	4,044	4.4	-2.8
CDL HOSPITALITY TRUSTS	1,868	1.0	2,578	6.8	-13.1
ESR-REIT	1,696	0.79	1,107	4.9	-6.8
CROMWELL EUROPEAN REIT	1,694	1.0	494	13.6	-6.9
PARKWAYLIFE REAL ESTATE	1,640	1.5	1,409	3.0	-7.5
STARHILL GLOBAL REIT	1,527	0.8	1,188	2.9	-8.5

Source: Bloomberg, KGI Research *Blue highlight indicates those in our watchlist

Figure 2: Cheapest S-REITs based on P/B ratio differentials (in number of Standard Deviations) as compared to 10Y historical P/B ratio

Company Name	Forward Dividend Yield (%)	Current P/B Ratio (x)	P/B Ratio Standard Dev. (vs 10Y hist P/B)	YTD Price Performance (%)	1 YR Price Performance (%)
QUE COMMERCIAL REAL ESTATE I	7.1	0.6	-2.2	4.3	-6.3
IREIT GLOBAL	-	1.1	-1.4	2.1	-5.7
ASCENDAS HOSPITALITY TRUST	7.1	0.8	-1.3	5.8	-7.9
EC WORLD REIT	8.6	0.8	-0.8	2.9	-7.8
CACHE LOGISTICS TRUST	8.2	1.0	-0.8	4.3	-16.1
MANULIFE US REAL ESTATE INV	7.1	1.0	-0.8	4.5	-14.9
FORTUNE REIT	5.6	0.6	-0.6	5.2	-3.0
CAPITALAND RETAIL CHINA TRUS	7.2	0.9	-0.6	5.9	-12.1
FAR EAST HOSPITALITY TRUST	6.5	0.7	-0.6	4.1	-11.1
SABANA SHARIAH COMP IND REIT	-	0.8	-0.5	3.8	-1.2
QUE HOSPITALITY TRUST	7.3	0.9	-0.5	2.2	-8.0
ESR-REIT	7.3	0.79	-0.5	4.9	-6.8
SOILBUILD BUSINESS SPACE REI	8.8	0.9	-0.5	1.7	-18.1
FIRST REAL ESTATE INV TRUST	8.5	1.0	-0.4	5.6	-8.7
LIPPO MALLS INDONESIA RETAIL	11.9	0.8	-0.2	15.4	-48.8
FRASERS HOSPITALITY TRUST	6.8	0.9	-0.2	1.4	-11.1
STARHILL GLOBAL REIT	6.9	0.8	-0.1	2.9	-8.5
CDL HOSPITALITY TRUSTS	5.9	1.0	-0.1	6.8	-13.1
FRASERS CENTREPOINT TRUST	5.5	1.1	0.0	3.7	-0.9
FRASERS LOGISTICS & INDUSTRI	6.4	1.1	0.0	2.9	-7.1

Source: Bloomberg, KGI Research *Blue highlight indicates those in our watchlist

Figure 3: Highest dividend paying S-REITs based on forward dividend yield

Company Name	Market Cap (\$\$ m)	Forward Dividend Yield (%)	Current P/B Ratio (x)	YTD Price Performance (%)	1 YR Price Performance (%)
LIPPO MALLS INDONESIA RETAIL	601	11.9	0.8	15.4	-48.8
SASSEUR REAL ESTATE INVESTME	808	9.2	-	5.4	-14.1
SOILBUILD BUSINESS SPACE REI	625	8.8	0.9	1.7	-18.1
DASIN RETAIL TRUST	485	8.6	0.6	0.6	2.4
EC WORLD REIT	562	8.6	0.8	2.9	-7.8
FIRST REAL ESTATE INV TRUST	820	8.5	1.0	5.6	-8.7
KEPPEL-KBS US REIT	697	8.4	-	3.3	-6.7
CACHE LOGISTICS TRUST	783	8.2	1.0	4.3	-16.1
AIMS AMP CAPITAL INDUSTRIAL	948	7.6	1.0	3.8	1.5
QUE HOSPITALITY TRUST	1,249	7.3	0.9	2.2	-8.0
ESR-REIT	1,696	7.3	0.79	4.9	-6.8
CAPITALAND RETAIL CHINA TRUS	1,412	7.2	0.9	5.9	-12.1
ASCENDAS HOSPITALITY TRUST	924	7.1	0.8	5.8	-7.9
QUE COMMERCIAL REAL ESTATE I	1,370	7.1	0.6	4.3	-6.3
MANULIFE US REAL ESTATE INV	1,391	7.1	1.0	4.5	-14.9
STARHILL GLOBAL REIT	1,527	6.9	0.8	2.9	-8.5
FRASERS COMMERCIAL TRUST	1,281	6.8	0.9	4.4	-3.4
FRASERS HOSPITALITY TRUST	1,339	6.8	0.9	1.4	-11.1
FAR EAST HOSPITALITY TRUST	1,179	6.5	0.7	4.1	-11.1
FRASERS LOGISTICS & INDUSTRI	2,143	6.4	1.1	2.9	-7.1

Source: Bloomberg, KGI Research *Blue highlight indicates those in our watchlist

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CSE Global

(CSE SP/CSES.SI)

Great start to the new year; 2018 infra order wins increased 44% YoY

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- CSE announced on 14 January 2019 that it had secured S\$84m in infrastructure-related projects in 4Q18, bringing its 2018 infrastructure orders to S\$151mn, a 44% increase YoY.
- We are positive on CSE's outlook on the back of 22-26% EPS growth in the next 3 years from better industry prospects and from synergies with its new major shareholder.
- Maintain BUY. CSE's valuations are attractive, trading at 14/11/9x 2018/19/20F EPS. We expect downside risks to be mitigated by its above-industry 6.4% dividend yield.

Financials & Key Operating Statistics

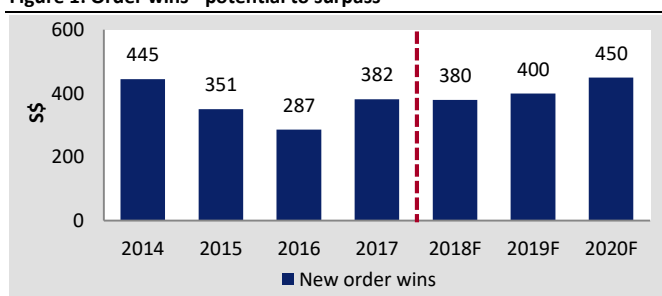
YE Dec (\$\$ m)	2016	2017	2018F	2019F	2020F
Revenue	317.8	362.4	376.8	399.5	423.4
PATMI	21.2	-45.1	17.8	20.9	25.3
Core PATMI	20.6	-3.5	16.1	20.4	24.8
Core EPS	4.0	-0.7	3.1	4.0	4.8
Core EPS grth (%)	-34.0	na	na	26.6	21.6
Core P/E (x)	10.8	-63.2	13.8	10.9	8.9
DPS (SGCents)	2.8	2.8	2.8	2.8	2.8
Div Yield (%)	6.4	6.4	6.4	6.4	6.4
Net Margin (%)	6.7	-12.5	4.7	5.2	6.0
Gearing (%)	-27.5	-8.8	-11.3	-10.4	-11.7
Price / Book (x)	0.9	1.3	1.2	1.2	1.1
ROE (%)	8.3	-25.7	9.9	11.3	12.9

Source: Company Data, KGI Research

Diversification. Since the oil and mining downturn began in 2015, CSE Global has successfully diversified into the infrastructure sector, mainly with the supply and servicing of 2-way radio communication systems in Australia. The recent order wins of a total combined S\$84mn infrastructure work reinforces our view of CSE's value-added proposition to clients in the infrastructure sector in Singapore and Australia. Our site visit to CSE's Australian facilities in September 2018 (please refer to report published on 8-Oct-18) further strengthened our view of the recovery in Australia's O&G, mining and infrastructure sectors. All the nine companies we met during the site visit cited expansion plans, which at least indicated to us that we are past the cyclical troughs.

Potential to surpass expectations. CSE managed to win between S\$69-89mn of new orders per quarter in 9M18, or a combined S\$239mn. Meaning that CSE would need US\$57mn of non-infrastructure new orders to surpass our estimates of S\$380mn for full-year 2018F.

Figure 1: Order wins - potential to surpass



Source: Company data, KGI Research

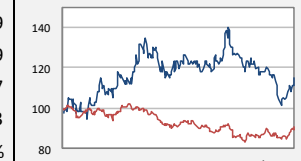
Buy - Maintain

Price as of 16 Jan 19 (SGD)	0.43	Performance (Absolute)	
12M TP (\$)	0.57	1 Month (%)	1.2
Previous TP (\$)	na	3 Month (%)	-8.7
Upside, incl div (%)	38%	12 Month (%)	25.6

Trading data

Mkt Cap (\$mn)	219
Issued Shares (mn)	509
Vol - 3M Daily avg (mn)	0.7
Val - 3M Daily avg (\$mn)	0.3
Free Float (%)	71.9%

Perf. vs STI Index (Red)



Major Shareholders

Serba Dinamik	25.0%
Fidelity Mg't & Research	10.1%
CAM-GTF	6.8%

Previous Recommendations

8-Oct-18 BUY \$0.57

Good momentum. CSE has done commendably well by winning S\$382mn of new orders in FY2017, the first year-on-year increase in four years. We expect CSE to secure a similar level of new orders in FY2018F, increasing to S\$400mn and S\$450mn in FY2019F and FY2020F, respectively.

Attractive 6.4% dividend yield. Management had previously guided a 2.75 SG cents full-year dividend, which would mean a final 1.0 SG cents dividend. That would imply an attractive full-year 6.4% dividend yield. It has consistently paid 2.75 SG cents p.a. over the past 4 years. We estimate that CSE can sustain this dividend amount going forward as balance sheet remains in net cash position of S\$20.9mn while free cash flows are sufficient to cover the annual dividend payout of S\$14mn.

Valuation & Action: CSE is currently trading at 14/11/9x 2018/19/20F EPS - which is attractive in our view given its solid balance sheet, asset light model and stable recurring free cash flows. We thus maintain our **BUY** recommendation and believe that EPS growth of >20% over the next 3 years is achievable on the back of improving industry dynamics.

Full-year earnings; key date to watch out for. A key date to watch out for would be the upcoming full-year earnings, which we think would be scheduled on Friday, 22 Feb. With 9M18 earnings already making up 84% of our FY2018F forecasts, we can expect an earnings beat or higher DPU guidance to lead to a positive re-rating catalyst.

Risks: Margin pressure due to competition and lower-than-expected new order wins. Foreign exchange risks due to its exposure to USD, AUD and EUR.



SIASP 3.22% 07/09/20

(SIA SP/SIAL.SI)

Short-Term Carry

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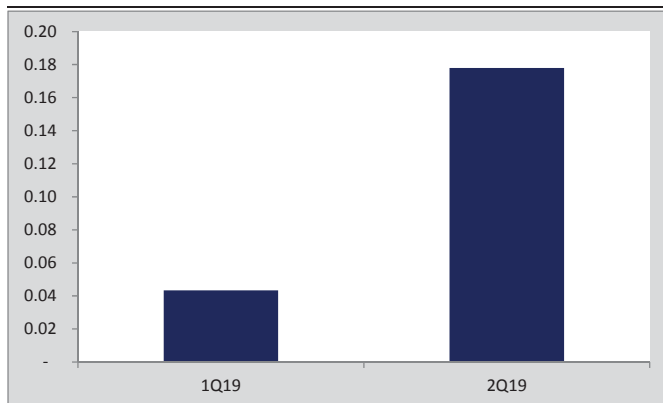
Company Background: Singapore Airlines is the flag carrier of Singapore and provides passenger air transportation services through various brands including Singapore Airlines, SilkAir, Tiger Airways and Scoot. The group also provides other services such as air cargo transportation and airframe maintenance through subsidiaries such as SIA Engineering Company. Listed on SGX, the group has a market cap S\$11bn and is 55% owned by Temasek Holdings.

Credit Considerations:

Higher fuel costs dragged 2Q19 profits lower but growth in operating metrics continues. For 2Q19, the group's revenue rose 5.6% YoY to S\$4.1bn but operating profits declined 34.8% YoY to S\$232.9mn as net fuel costs rose 24% YoY to S\$1.1bn. In terms of operating metrics, revenue per available seat-km (RASK) remained at 7.6 while load factor improved 3.1% YoY to 84.9%, driven by passenger traffic outpacing capacity growth.

Profitability drags interest coverage while debt levels continue growing for fleet renewal funding. As of 2Q19, the group's net debt/equity rose to 0.18x from 0.04x in 1Q19 while interest coverage weakened as EBITDA/Finance Costs declined to 20.6x from 29.7x in 2Q18, which continue to be healthy levels in our view. For the quarter, the group spent S\$1.13bn on capital expenditures, funded by S\$900m of borrowings and S\$612m in operating cash flows.

Figure 1: Net Debt/Equity (x)



Source: Company Data, KGI Research

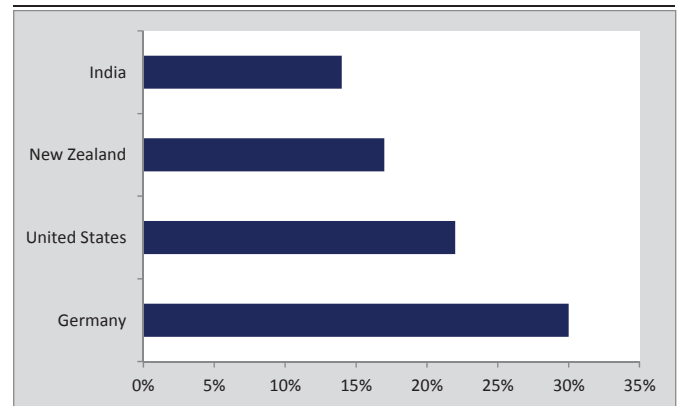
Going forward, we expect gearing metrics to continue weakening as the group has projected \$24.8bn in capex spending on aircrafts by FY24 with an aircraft order book exceeding US\$50bn.

Volatility in fuel costs are unpredictable but the launch of ultra long range flights could help mitigate competition.

The group has hedged 58% of its jet fuel cost for 2H19 at 71 USD/bbl but oil prices continue to be volatile as a result of macroeconomic risks and OPEC's actions while competition among airlines remains intense. In this regard, we continue to expect headwinds in the group's profitability but the launch of ultra long range (ULR) services to the United States could help to improve passenger yields and load factor in the coming quarters.

According to data from Changi Airport, passenger traffic from the United States was among the fastest growing markets YoY, registering double-digit growth for the 3 quarters of 2018 and 22% growth in November 2018. Since ULR services to North America was only launched in 2018, we believe 3Q19 results should provide more clarity on customers demand after christmas and thanksgiving seasons.

Figure 2: Changi Airport Passenger Traffic Growth for November



Source: Changi Airport, KGI Research

Credit Recommendations: While credit spreads have widened 15bps to 30bps since September 2018, we prefer exposure to SIASP's short-term credits rather than its intermediate-term issues as we expect Singapore Airlines to continue tapping the bond market for its capital expenditures, which could result in re-pricing of its credits.

For investors looking to park cash in short-term corporate credit, we recommend an exposure to SIASP's 2020 currently trading at 101.2 with a YTW of 2.4% and duration of 1.4.

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Sembcorp Marine Ltd

(SMM SP/SCMN.SI)

Past cyclical troughs

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- The causes of the decline in oil prices last quarter is reversing. Both the supply and demand side are showing improvement and we thus believe that SMM offers a compelling risk-reward return at current levels.
- We reiterate our BUY recommendation as the fundamental picture improves in the coming quarters.
- In addition to more big offshore projects being approved in 2019, anecdotal evidence suggests that interest is returning to the O&G sector.

Financials & Key Operating Statistics

YE Dec (\$ m)	2016	2017	2018F	2019F	2020F
Revenue	3544.8	2387.4	4664.0	3359.8	4079.8
PATMI	78.8	14.1	-76.0	52.0	103.0
Core PATMI	97.7	-37.4	-76.0	52.0	103.0
Core EPS	4.7	-1.8	-3.6	2.5	4.9
Core EPS grth (%)	-74.5	-138.3	na	-168.5	98.1
Core P/E (x)	45.1	-117.8	-58.0	84.8	42.8
DPS (\$G Cents)	2.5	2.0	1.5	2.0	2.0
Div Yield (%)	1.2	0.9	0.7	0.9	0.9
Net Margin (%)	2.2	0.6	-1.6	1.5	2.5
Gearing (%)	112.7	111.1	150.1	126.6	127.7
Price / Book (x)	1.7	1.8	1.9	1.9	1.8
ROE (%)	3.0	0.6	-3.2	2.2	4.2

Source: Company Data, KGI Research

Event: Oil prices plunged by almost 40% in 4Q18, which in our view, was oversold mainly due to geopolitical reasons. The sell-down was exacerbated by concerns that weak economic data from Asia and Europe would impact the demand side.

The cure for low oil prices is low oil prices. The ramp-up in oil production prior to the Iran sanctions are now being reversed as oil prices weakened in Oct-Dec 2018. Data from the major oil producers are showing declining exports, which means it will soon start filtering to oil prices in the coming weeks. For instance, OPEC's oil output fell by 0.8m barrels per day (mbpd) to 31.6mbpd in December 2018. This is a bullish signal given that OPEC+ (which includes OPEC, Russia & 9 other nations) agreed to cut 1.2mbpd starting January 2019.

Impact: SMM's share price has remained resilient despite the 40% decline in oil price in the last quarter, which we can at least attribute to the 15-year low P/B valuations that it is currently trading at. Hence, with downside primarily mitigated by its rock-bottom valuations, we are of the view that any positive news from new order wins would result in a significant re-rating catalyst.

Past cyclical troughs. LNG could be a significant driver for the offshore sector in 2019, with final investment decisions (FID) on new projects expected to pick up the pace. The FID of LNG Canada in October 2018 was the first major greenfield project since 2015. Meanwhile in Asia, as per Wood Mackenzie's analysis, there will be a need to fill new and old gas infrastructure and drilling of offshore prospects

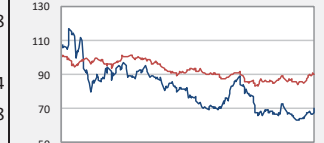
BUY - Maintain

Price as of 18 Jan 19 (SGD)	1.67	Performance (Absolute)	
12M TP (\$)	2.50	1 Month (%)	9.2
Previous TP (\$)	2.64	3 Month (%)	-9.7
Upside (%)	50%	12 Month (%)	-27.1

Trading data

Mkt Cap (\$mn)	3,488
Issued Shares (mn)	2,089
Vol - 3M Daily avg (mn)	5.4
Val - 3M Daily avg (\$mn)	8.8
Free Float (%)	38.7%

Perf. vs STI Index (Red)



Major Shareholders

Sembcorp Industries	61.1%	7-May-18	BUY \$2.64
Franklin Resources	5.0%	26-Feb-18	HOLD \$2.06
		2-Nov-17	HOLD \$2.05

across Australia, Brunei, Malaysia, Myanmar, Pakistan and Papua New Guinea in 2019. Some of the projects will be frontier deepwater exploration. More importantly, Asia-Pacific LNG demand is set to grow 60% by 2030, driven by China that has been responsible for 50% of 2018's global demand growth.

Furthermore, anecdotal evidence from our attendance of O&G seminars is showing renewed interest in the sector. We noticed a 50% increase in attendance to similar O&G events in January 2019 as compared to early 2018. We also noted a more positive tone from SMM's management in 4Q18, where it now expects operating profits in 2019 as work ramps up.

Mega yard site visit. We had the chance to visit SMM's mega Tuas Boulevard Yard (TBY) in Dec-18. The yard is currently carrying out significant projects worth around US\$3bn for international offshore firms such as Shell, Transocean and Heerema. As of Nov-18, SMM had spent S\$1.8bn on the yard and has built up automated processes to secure projects higher up the value chain.

Valuation & Action:

We reiterate our BUY recommendation on SMM. The key events which drove the crash in oil prices last quarter is now reversing and we are of the view that the recovery in the sector may potentially surprise on the upside. In fact, over the weekend, IEA forecasts that the oil market may potentially return to deficit by as early as 2Q19, driven mainly by production declines from Iran and Venezuela.

Risks: Cancellations from customers remain the most significant risk. Profit margins may continue to be under pressure as SMM diversifies into new projects.

STI Components and Key Metrics

Ticker	Company Name	Last Price (Lcl)	Market Cap (SGDm)	1 Day Change (%)	Total Return YTD (%)	Total Return 1 Week (%)	Div Yield FY18 (%)	Div Yield FY19 (%)
FINANCIALS								
DBS SP	DBS	25.01	63,816	(0.5%)	5.6%	1.8%	4.7%	4.9%
OCBC SP	OCBC	11.73	49,841	(0.2%)	4.2%	2.0%	3.7%	4.0%
UOB SP	UOB	26.43	44,025	(0.4%)	7.6%	1.7%	4.6%	4.8%
SGX SP	SGX	7.44	7,962	0.3%	4.1%	2.5%	4.1%	4.3%
PROPERTIES								
HKL SP	Hongkong Land USD	6.95	22,235	0.7%	10.3%	0.6%	3.0%	3.2%
CAPL SP	CapitaLand	3.28	13,654	(0.6%)	5.5%	0.3%	3.8%	3.9%
CT SP	CapitaLand Mall Trust	2.26	8,332	(1.3%)	0.0%	(2.6%)	5.0%	5.2%
AREIT SP	Ascendas REIT	2.71	8,430	0.0%	5.4%	1.1%	6.0%	6.1%
CIT SP	City Development	8.84	8,017	(1.6%)	8.9%	1.5%	2.1%	2.1%
CCT SP	CapitaLand Comm Trust	1.83	6,852	(0.5%)	4.6%	0.5%	4.8%	4.9%
UOL SP	UOL	6.61	5,571	(1.2%)	6.8%	1.2%	2.6%	2.6%
TELECOMMUNICATIONS								
ST SP	SingTel	3.04	49,641	(1.0%)	3.8%	1.3%	5.9%	5.9%
CONSUMER SERVICES AND GOODS								
JM SP	Jardine Matheson USD	66.58	66,699	(0.4%)	(4.3%)	(2.0%)	2.4%	2.6%
JS SP	Jardine Strategic Holdings	36.86	55,533	0.7%	0.4%	(0.1%)	0.9%	0.9%
DFI SP	Dairy Farm International	9.48	17,438	0.0%	4.8%	2.2%	2.4%	2.7%
THBEV SP	ThaiBev	0.74	18,457	3.5%	20.5%	5.0%	2.8%	3.1%
JCNC SP	Jardine C&C	36.46	14,410	(1.6%)	3.1%	0.6%	3.5%	3.7%
GENS SP	Genting Singapore	1.10	13,249	1.9%	12.8%	6.8%	3.3%	3.4%
VMS SP	Venture Corp	15.32	4,409	1.1%	9.8%	3.5%	4.3%	4.3%
SPH SP	SPH	2.52	4,027	0.0%	7.2%	2.0%	5.1%	5.2%
TRANSPORT								
SIA SP	Singapore Airlines	9.63	11,399	0.4%	2.2%	(0.3%)	3.4%	3.8%
CD SP	ComfortDelGro	2.18	4,720	1.9%	1.4%	1.9%	4.8%	5.2%
COMMODITIES								
WIL SP	Wilmar	3.25	20,563	0.0%	4.2%	0.9%	3.3%	3.5%
GGR SP	Golden Agri	0.26	3,311	(1.9%)	6.1%	2.0%	1.0%	2.1%
OFFSHORE & MARINE/INDUSTRIALS								
KEP SP	Keppel Corp	6.30	11,418	0.2%	6.6%	2.6%	4.5%	4.2%
STE SP	ST Engineering	3.66	11,419	(0.8%)	4.9%	2.2%	4.2%	4.3%
SATS SP	SATS	4.82	5,371	0.0%	3.4%	(1.2%)	3.9%	4.1%
YZJSGD SP	Yangzijiang SGD	1.35	5,327	0.0%	8.0%	5.5%	3.4%	3.4%
SCI SP	Sembcorp Industries	2.69	4,800	(0.4%)	5.9%	2.3%	1.9%	2.7%
HPHT SP	HPH Trust USD	0.26	3,021	0.0%	4.1%	2.0%	8.9%	8.6%

Dividend Yield based on Bloomberg consensus. Total return includes dividends.

Source: Bloomberg

STI Reserve List (by market cap) - STI next review date: March 2019

Ticker	Company Name	Last Price (Lcl)	Market Cap (SGDm)	1 Day Change (%)	Total Return YTD (%)	Total Return 1 Week (%)	Div Yield FY18 (%)	Div Yield FY19 (%)
SUN SP	Suntec REIT	1.87	4,994	(1.1%)	5.1%	0.5%	5.3%	5.3%
MCT SP	Mapletree Commercial Trust	1.74	5,026	1.2%	5.5%	2.4%	5.2%	5.3%
MLT SP	Mapletree Logistics Trust	1.34	4,811	0.0%	6.3%	1.5%	5.9%	6.0%
KREIT SP	Keppel REIT	1.18	4,004	0.0%	3.5%	1.7%	4.8%	4.8%
MINT SP	Maple Industries Trust	2.00	3,798	1.0%	4.7%	1.5%	6.1%	6.4%

Dividend Yield based on Bloomberg consensus. Total return includes dividends.

Source: Bloomberg

Appendix 1: Corporate Action

Company	Results Ann Date	Period	DPS	Ex-Date	Book Close	Payable	Share Price 21 Jan 19	Yield (%)
Lian Beng Group Ltd	14-Jan-19	1H19	SGD 0.01000	22-Jan-19	23-Jan-19	30-Jan-19	SGD 0.525	1.9
First Real Estate Invst Trust	16-Jan-19	FY18	SGD 0.021500	23-Jan-19	24-Jan-19	28-Feb-19	SGD 1.020	2.1
Maxi-Cash Financial Services Corp Lt	7-Nov-18	3Q18	SGD 0.0030	24-Jan-19	25-Jan-19	8-Feb-19	SGD 0.139	2.2
PNE Industries	28-Nov-18	FY18	SGD 0.0300	24-Jan-19	25-Jan-19	15-Feb-19	SGD 0.890	3.4
ESR-REIT	18-Jan-19	FY18	SGD 0.841000	25-Jan-19	28-Jan-19	28-Feb-19	SGD 0.530	158.7
Nam Lee Pressed Metal	28-Nov-18	FY18	SGD 0.02000	25-Jan-19	28-Jan-19	11-Feb-19	SGD 0.395	5.1
Nam Lee Pressed Metal - Special	28-Nov-18	FY18	SGD 0.00500	25-Jan-19	28-Jan-19	11-Feb-19	SGD 0.395	1.3
Fraser and Neave	9-Nov-18	FY18	SGD 0.030000	4-Feb-19	7-Feb-19	20-Feb-19	SGD 1.700	1.8
Frasers Property	9-Nov-18	FY18	SGD 0.062000	4-Feb-19	7-Feb-19	20-Feb-19	SGD 1.760	3.5
Jumbo Group Ltd	21-Nov-18	FY18	SGD 0.0070	4-Feb-19	7-Feb-19	18-Feb-19	SGD 0.405	1.7
Goodland Group Ltd	23-Nov-18	FY18	SGD 0.00300	7-Feb-19	8-Feb-19	15-Feb-19	SGD 0.245	1.2
Thai Beverage PCL	26-Nov-18	FY18	Baht 0.2400	7-Feb-19	8-Feb-19	28-Feb-19	SGD 0.735	
Duty Free Int'l	9-Jan-19	3Q19	SGD 0.010000	11-Feb-19	12-Feb-19	7-Mar-19	SGD 0.205	4.9
Keong Hong Holdings Ltd	27-Nov-18	FY18	SGD 0.0200	15-Feb-19	18-Feb-19	27-Feb-19	SGD 0.510	3.9
Aspial Corp	7-Nov-18	3Q18	SGD 0.00250	27-Feb-19	28-Feb-19	8-Mar-19	SGD 0.205	1.2
Qian Hu Corp Ltd	11-Jan-19	FY18	SGD 0.0020	10-Apr-19	11-Apr-19	25-Apr-19	SGD 0.181	1.1

Latest Listing Issue Announcement

Company	Offer Price	Closing Date	Offeror
LTC Corporation Ltd	SGD 0.925 Cash	5.30 p.m. on 31 Jan 2019	Mountbatten Resources Pte. Ltd.
M1 Ltd	SGD 2.06 Cash	5.30 p.m. on 4 Feb 2019	Konnectivity Pte. Ltd.
Sunrise Shares Hldgs Ltd.	SGD 0.017 Cash	5.30 p.m. on 23 Jan 2019	Wong Siu Fai

Source: SGX Announcement

Appendix 2: Financial Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
21-Jan Q1 Frasers Centrepoint Trust Q3 Mapletree Logistics Trust Q4 Keppel REIT > Soilbuild Biz Space REIT IPO Grand Venture Technology (Catalist): Close @ 12.00 noon	22-Jan Q3 Mapletree Industrial Trust Q4 Keppel DC REIT > Keppel Infrastructure Trust	23-Jan SG (Dec 2018) CPI Q3 Mapletree Commercial Trust Q4 Ascott Residence Trust > CapitaLand Mall Trust > Keppel Telecoms & Tpt > Suntec REIT *Q4 CapitaLand IPO IPO: Grand Venture Technology (Catalist): Commence Trading @ 9.00 a.m.	24-Jan SG 4Q18 Industrial Properties Q1 Frasers Logistics & Industrial Trust Q3 Ascendas India Trust Q4 CapitaLand Commercial Trust > Keppel Corp > Keppel-KBS US REIT *Q2 Spore Exchange	25-Jan SG (Dec 2018) Index of Industrial Production SG 4Q18 Private Residential, Retail and Office Properties Q2 Micro-Mechanics Hldgs (Release on Sat, 26-Jan) Q3 Mapletree North Asia Commercial Q4 Cache Logistics Trust
28-Jan Q4 Fortune REIT > M1 > Parkway Life REIT	29-Jan Q2 Starhill Global REIT Q4 Ascott Residence Trust > CDL Hospitality Trusts > OUE	30-Jan Q3 Ascendas REIT Q4 OUE Commercial REIT *Q1 Frasers Hospitality Trust *Q4 Lonza Grp	31-Jan SG (Dec 2018) Unemployment Rate & Employment	1-Feb-2019 Q4 CapitaLand Retail China Trust
4-Feb	* 5-Feb Chinese Lunar New Year's Day	* 6-Feb Chinese Lunar New Year's Day	7-Feb	8-Feb
11-Feb Q4 Manulife US REIT	12-Feb Q4 Utd Overseas Insurance	13-Feb Q3 Accordia Golf Trust *Q4 ComfortDelgro Corp	14-Feb Q4 StarHub	15-Feb
18-Feb SG Budget 2019 Q4 DBS (Before mkt open) / Sasseur REIT	19-Feb	20-Feb Q4 Great Eastern Hldgs	21-Feb Q4 City Devpts > Genting Spore > Sembcorp Industries > Wilmar Int'l	22-Feb Q4 OCBC / UOB (Both before mkt open) *Q4 IFS Capital

* Tentative

Source: Bloomberg

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