KGI CHINA DEVELOPMENT FINANCIAL

4Q 2020 Outlook

4Q 2020 PART 2 – Equities and Fixed Income Outlook

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Going into the last quarter of 2020, we are incrementally more cautious of the current market environment. The upcoming months include a string of new risks, highlighted in part 1 of our outlook.
While valuation concerns are more prominent as of recent, we think they are fairly unchallenging in Singapore, apart from particular Healthcare stocks.

•**Buy the dip in 4Q20.** Barring any resurgence in Covid-19 cases, we think that the worst is over and it is now an attractive opportunity as Singapore's economy begins to emerge from the woods.

•**Stick with the defensives, REITs, technology picks, as well as those riding on China's recovery out of Covid-19**. We remain cautiously optimistic because while the Singapore economy may have begun its journey to recovery, we think that there are still many other external factors and risks that could potentially derail our expectations.

•**Fixed income.** We recommend to venture further out the risk spectrum against the backdrop of a lower-for-longer interest rate environment and an improving macro outlook.

1) Equity overview and sector outlook

Despite broad market recovery since March, Covid-19 continues to have polarizing impacts on different sectors of the economy. The retail, hospitality, tourism and transport sectors bore, and are still bearing, the brunt the impact as domestic movements and international travel came to a total halt since early April. On the other hand, with Covid-19 cases on the rise and strict safety measures in place to curb the spread of the virus, the healthcare and technology sectors saw an exponential increase in interest and price performance, as markets factored in their expectations for strong profit growth in the near term. Personal protective equipment (PPE) and medical supplies such as gloves and masks became an immediate and critical need – not only for healthcare workers but for entire populations across the world. Meanwhile, extra time spent at home led to greater demand for remote productivity, games, gadgets, which has positive spillover effect on the entire tech supply chain.

Covid-19 cases in Singapore have continued to reassuringly be on the decline, down to an average of less than one unlinked community case per day, in the last two weeks since 6th September. This has not only allowed the Government to relax safety measures and restrictions further, but also given a boost to consumer and business confidence and allowed more businesses to return to some level of normalcy. We believe that barring any unforeseen resurgence in the spread of the virus and large clusters of Covid-19 cases triggering a second wave of lockdowns or movement restrictions, which is not unlikely as we have witnessed in other parts of the world, the worst is over and expectations are now for improvements to GDP in the coming quarters, with expansion expected as early as 1Q21.

We choose, therefore, to remain cautiously optimistic and recommend sticking to REITs with strong balance sheets for attractive yields, especially given the low interest rate environment that is expected to persist for the medium term, and limited payouts from the banks. We think that domestic demand across retail and commercial space will remain robust as 'pandemic fatigue' sets in. We also continue to like the technology sector as Covid-19 continues to catalyse digital transformation in every sector and aspect of our lives.

2) Fixed Income overview

In addition to lowering policy interest rates, most of the world's major central banks also adopted quantitative easing through bond purchases to release liquidity into financial markets. Due to the abundant liquidity, coupled with rising inflation expectations as the economy recovers, central bank bond purchases have suppressed nominal interest rates on mid to long term bonds, resulting in low real interest rates or even a negative real interest rate environment, which has caused liquidity to flow into various financial instruments for positive returns, including a rapid rise in the P/E ratios of equities and a rapid reduction in credit spreads on corporate bonds.

Although credit spreads on investment debt have narrowed significantly, we expect that the negative real interest rate environment will continue to reduce credit spreads on investment grade bonds. In addition, given the improving macro picture, we would take the opportunity to diversify from the highest grade names and recommend a combination of SGD dollar bonds and SGD Perpetuals with yields still above 4.0%.

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Figure 1: Overall sector performance in Singapore

Sector Name	YTD Performance (%)	6 Months Performance (%)	Total Return 1 Year (%)	Comments	4Q20 Outlook
SG Commodities	0.43	36.05	10.95	One outperformer but sector is generally weaker off	Neutral
SG Consumer	-16.17	13.86	-13.95	Supermarket sales tapering down; generally poor outlook on retailers	Neutral
SG Energy	-16.68	12.41	-4.86	Oil still in oversupply position, recovery still a while away	Neutral
SG Financials	-17.90	9.47	-16.56	Low interest rates to stay, possible further dividend suspension	Neutral
SG Healthcare	379.19	315.13	77.94	Strong growth to continue but currently trading at challenging valuations	Neutral
SG Industrials	-22.56	-9.19	-22.78	Auto and construction outlook to remain weak, but weakness has been priced in	Neutral
SG Property	-20.14	5.27	-15.77	Residential subsector rebounds but construction delays and increased costs likely to weigh on 2021 performance	Neutral
SG REITs	-1.26	34.82	4.72	Attractive valuations coupled with spending incentives (retail) & tenant inflow (office)	Outperform
SG Technology	13.59	46.40	12.68	Strong tailwinds into 2021, unchallenging valuations	Outperform
SG Telecom	-29.28	-5.64	-24.13	Long-term competitor headwinds persist, 5G upside still murky	Underperform
SG Transport	-39.70	-5.57	-37.00	Dependent on external demand, which will be muted for some time still	Neutral
SG Others	-18.88	2.88	-16.61		N/A

Source: Bloomberg, KGI Research

Figure 2: STI components and consensus earnings consensus estimates (Bloomberg)

BBG TICKER	COMPANY NAME	PRICE	MKT CAP (SGD)	RELATIVE PERFORMANCE YTD TO STI (%)	CONSENSUS TP (S$)	UPSIDE /(DOWNSIDE) %	TOTAL RETURN YTD (%)
MINT SP Equity	Mapletree Industrial Trust	3.24	7,615	62.9	3.20	-1%	28.8
VMS SP Equity	Venture Corporation Ltd	18.97	5,498	53.1	19.78	4%	22.3
SCI SP Equity	Sembcorp Industries Ltd	1.35	2,412	53.0	1.72	27%	19.4
MLT SP Equity	Mapletree Logistics Trust	2.02	7,698	51.8	2.07	3%	19.5
AREIT SP Equity	Ascendas Real Estate Investment Trus	3.22	11,657	41.8	3.65	13%	11.9
WIL SP Equity	Wilmar International Ltd	4.37	27,784	38.7	5.13	17%	9.6
SGX SP Equity	Singapore Exchange Ltd	8.93	9,566	31.8	8.80	-1%	2.5
YZJSGD SP Equit	Yangzijiang Shipbuilding Holdings Ltd	0.99	3,845	15.0	1.21	22%	(8.0)
STE SP Equity	Singapore Technologies Engineering Lt	3.39	10,564	12.5	3.78	11%	(10.0)
CCT SP Equity	CapitaLand Commercial Trust	1.67	6,449	9.7	1.89	13%	(12.7)
MCT SP Equity	Mapletree Commercial Trust	1.98	6,562	8.3	2.11	7%	(16.1)
CT SP Equity	CapitaLand Mall Trust	1.96	7,233	4.2	2.30	17%	(18.1)
UOL SP Equity	UOL Group Ltd	6.61	5,577	3.9	8.01	21%	(18.6)
OCBC SP Equity	Oversea-Chinese Banking Corp Ltd	8.41	37,048	0.2	9.87	17%	(19.4)
DBS SP Equity	DBS Group Holdings Ltd	19.73	50,097	(0.3)	22.96	16%	(20.5)
JM SP Equity	Jardine Matheson Holdings Ltd	41.59	41,667	(2.2)	46.22	11%	(22.3)
GENS SP Equity	Genting Singapore PLC	0.68	8,204	(3.4)	0.77	13%	(23.8)
UOB SP Equity	United Overseas Bank Ltd	19.02	31,753	(5.0)	21.87	15%	(23.9)
CIT SP Equity	City Developments	7.82	7,092	(6.0)	10.39	33%	(27.4)
CAPL SP Equity	CapitaLand Ltd	2.68	13,917	(6.6)	3.71	38%	(25.6)
JS SP Equity	Jardine Strategic Holdings Ltd	20.94	31,651	(10.7)	29.67	42%	(30.4)
DFI SP Equity	Dairy Farm International Holdings	3.90	7,195	(10.7)	4.91	26%	(28.3)
THBEV SP Equity	Thai Beverage PCL	0.59	14,693	(14.1)	0.79	35%	(32.5)
ST SP Equity	Singapore Telecommunications Ltd	2.17	35,434	(15.8)	3.01	39%	(34.1)
HKL SP Equity	Hongkong Land Holdings Ltd	3.69	11,745	(16.1)	5.21	41%	(32.1)
CD SP Equity	ComfortDelGro Corp Ltd	1.45	3,142	(20.3)	1.76	22%	(36.8)
KEP SP Equity	Keppel Corp Ltd	4.12	7,488	(20.4)	5.87	42%	(37.6)
JCNC SP Equity	Jardine Cycle & Carriage Ltd	18.19	7,189	(21.0)	24.83	36%	(36.7)
SATS SP Equity	SATS Ltd	2.75	3,078	(28.9)	2.99	9%	(45.7)
SIA SP Equity	Singapore Airlines Ltd	3.36	9,962	(31.0)	3.41	1%	(47.2)

Source: Bloomberg, KGI Research

EQUITIES

Commodities

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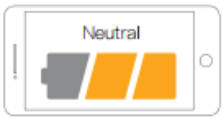

The focus in Singapore's commodity sector has been on Wilmar International, the 6th best performing stock in the STI in 2019 and the 7th best year-to-date. Wilmar International is notable as its share price eked out gains of 9% year-to-date compared to the 30-37% declines of palm oil peers like First Resources, Golden Agri and Bumitama Agri. Optimism over Wilmar International's listing of its China business unit was a key driver of its outperformance, but recently tapered by the unexpected 170.5mn share placement by Archer Daniels Midland at S$4.40. We think that Wilmar International's share price is positioned to benefit from the IPO of its Chinese business unit. However, that is not enough for us to be positive overall on the commodities sector in Singapore. We thus maintain Neutral.

Consumer

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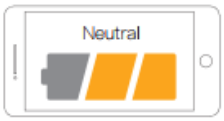
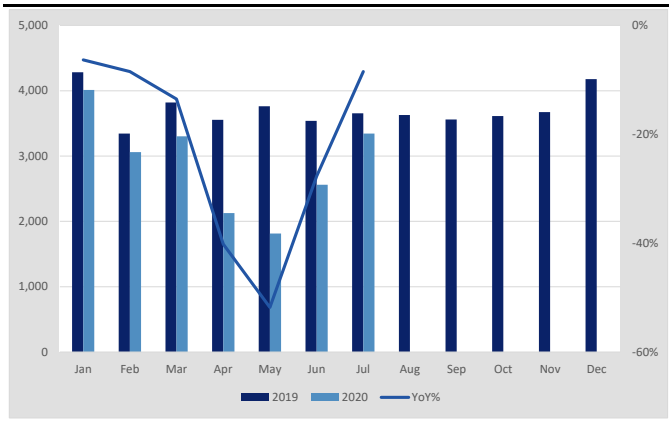


We continue to remain neutral on Singapore's consumer stocks as Covid-19 uncertainties loom over the next quarter. Since the beginning of the year, the consumer sector has seen almost a 9% decline despite being a traditionally defensive sector. Among the underperforming subsectors are retail, hotel operators, entertainment and restaurants, while supermarkets and food retailers shined as the top outperformers amid 'panic-buying' and restrictions on dining out during the circuit breaker period. However, we see supermarket sales tapering down to just slightly elevated levels as more consumers choose dining out, takeaway or delivery options, especially as more gatherings between friends and family begin to resume over the holiday season. According to July retail sales data alone, supermarkets have seen a c.10% month-on-month decline in revenue from June, to the benefit of restaurants and food caterers who saw a 61% and 5.2% increase in the same period respectively. While we do note that the gradual resumption of business activities only started on 19 June 2020 for Phase Two, we believe that the trend in favour for eating out, takeaway and food delivery services will continue throughout 4Q, especially as more Singaporeans begin to experience 'pandemic fatigue'.

Figure 3: Estimated total retail sales value, 2019 vs 2020, YoY% Change



Source: SingStat, KGI Research

While consumer discretionary spending and entertainment may take a longer period of time to recover given the gloomy economic outlook and restrictions, safety and crowd control measures in place at most locations, we note that the Singapore Government has been open to easing restrictions further given the improvement in the number of community cases in the last few weeks, and we expect this to be a catalyst for recovery going into 2021. As part of the progressive re-opening of the arts and culture sector, the Ministry of Culture, Community and Youth (MCCY) and the National Arts Council (NAC) have begun piloting small-scale live performances at selected arts venues such as Esplanade, from 11 September 2020, with audiences capped at a maximum of 50 persons. The pilot performances will help NAC, the arts and culture community, and the public gain confidence and experience in implementing the necessary safety measures, and demonstrate ways to resume live performances safely. All adult Singaporeans will also be given $100 in digital vouchers to spend on staycations, tickets to leisure attractions and local tours in December, supporting hotel and leisure operators going into 2021 as international tourism remains subdued.

Energy

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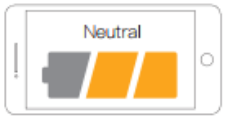

Energy-related companies did not perform well, primarily due to an oversupply of oil driven by the pandemic-induced lockdowns. The collapse in oil prices was further exacerbated by the price war triggered by Saudi Arabia and Russia in the first half of 2020, which caused the WTI benchmark to trade below zero for the first time on record. As a result, it was a year for the history books for two of Singapore's largest shipyards. Keppel Corp reported almost S$1bn of impairments for its offshore & marine assets, ultimately leading to Temasek pulling out of its partial offer for the company. Meanwhile, Sembcorp Marine's share price did not see the light of day once they announced a S$2bn recapitalisation exercise and demerger from parent company, Sembcorp Industries. On the other hand, it was a good move by Temasek to delink the two companies as Sembcorp

Industries has finally started to re-rate positively as a pure-play utilities business.

Pure-play oil exploration and production company Rex International's share price could not shrug off the weak sentiments from the collapse in oil prices even though it received the green light to develop its Oman oil field, a potential game-changer for the company. As the only pure-play exploration company on the SGX, however, we expect Rex International to benefit when oil prices recover going into the last quarter of 2020. On a positive note, Yangzijiang Shipbuilding's share price has so far managed to outperform Singapore's main benchmark and remains in a strong financial position, going so far as to resume its share buyback programme in September 2020 (Yangzijiang has repurchased around S$13mn worth of its own shares during the 4-14 Sep period).

Financials

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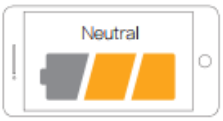

The three local banks have had a tough year as low interest rates and mounting concerns of asset quality have weighed on valuations. Given that the three banks make up almost 40% of the total weighting in the FTSE STI, it is no surprise their performance year-to-date have closely aligned to one another, and are lower by around 20% on average from the start of the year. While investors sought consolation in the steady dividends of the banks, it was not to be as Singapore's financial regulator called on the banks to cap their total dividend at 60% of the amount in the previous financial year. What this means is that investors will likely be rewarded with higher dividends should the pandemic be controlled and the economy starts to improve, as we note that the local banks capital ratios remain at healthy levels. Despite the weak performance of most financial companies, iFAST Corp stood out among the pack to reward shareholders with a 130% return year-to-date, riding on optimism over its bid to be one of Singapore's first digital bank. Overall, there isn't much to get excited about the banks in 4Q20 given the pressure on earnings and the recent spate of negative news related to money laundering. We therefore stay Neutral on the financial sector for now.

Healthcare

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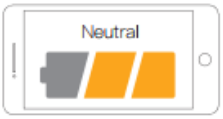

The stellar outperformance in the healthcare sector in recent months have mostly been driven by the accelerated production of medical equipment due to the Covid-19 outbreak globally - creating a positive skew towards biotech, healthcare supplies and medical technology manufacturers. Of healthcare and medical service providers, pharmaceuticals and insurance (or managed healthcare solutions providers) such as Hyphens Pharma International Ltd and Alliance Healthcare Group Ltd outperform healthcare providers, in line with the halting of all non-essential healthcare services and medical tourism for two months since early April. That said, many healthcare providers including Singapore Medical Group has seen business return to close to 80-90% of pre-Covid levels since the reopening of the economy and resumption of most healthcare services, with 'pent-up' demand for elective procedures still strongly intact.

Moving into the last quarter of 2020, healthcare equipment and supplies providers and pharmaceuticals should continue to see healthy levels of revenue and order wins, although we think that there could be overvalued players among the subsectors. Healthcare providers may also see limited potential improvement in the last quarter, as medical tourism is unlikely to resume given the ongoing Covid-19 risks. With effect from 1st September 2020, the Ministry of Health has marginally revised its criteria for foreign patients seeking specialist medical care in Singapore to allow for existing patients, if whose delay in continuation of treatment will lead to serious, life-threatening adverse outcomes and is not likely to require usage of scarce healthcare resources such as ICU or blood supply. Covid-19 testing and clearance of patients and their caregivers are also required multiple times throughout the process, based on the circular distributed to CEOs of private and public healthcare institutions earlier in August. Given the many strict conditions that need to be met still, we therefore do not expect an improvement in medical tourism in 4Q20, but potentially in the beginning of 2021 once the Covid-19 situation in Singapore and Asia further stabilises.

Figure 4: Price performance of the Healthcare sector, YTD (%)

Bloomberg Ticker	Company Name	Sub-sector	YTD Price Performance (%)
HYP SP EQUITY	Hyphens Pharma International Ltd	Pharmaceuticals	99
AMAT SP EQUITY	AsiaMedic Ltd	Health Care Providers & Services	92
AHG SP EQUITY	Alliance Healthcare Group Ltd	Health Care Providers & Services	25
HMED SP EQUITY	Healthway Medical Corp Ltd	Health Care Providers & Services	19
CBH SP EQUITY	Clearbridge Health Ltd	Health Care Providers & Services	15
QNM SP EQUITY	Q&M Dental Group Singapore Ltd	Health Care Providers & Services	0
IXBIO SP EQUITY	iX Biopharma Ltd	Pharmaceuticals	0
AHSP SP EQUITY	Asian Healthcare Specialists Ltd	Health Care Providers & Services	-1
ISEC SP EQUITY	ISEC Healthcare Ltd	Health Care Providers & Services	-13
SMG SP EQUITY	Singapore Medical Group Ltd	Health Care Providers & Services	-15
RFMD SP EQUITY	Raffles Medical Group Ltd	Health Care Providers & Services	-18
CLGL SP EQUITY	Cordlife Group Ltd	Health Care Providers & Services	-20
TMG SP EQUITY	Thomson Medical Group Ltd	Health Care Providers & Services	-22
TKMED SP EQUITY	Talkmed Group Ltd	Health Care Providers & Services	-22
SOG SP EQUITY	Singapore O&G Ltd	Health Care Providers & Services	-23
MEDI SP EQUITY	Medinex Ltd	Health Care Providers & Services	-24
AOXIN SP EQUITY	Aoxin Q & M Dental Group Ltd	Health Care Providers & Services	-32.5
IHC SP EQUITY	OUE Lippo Healthcare Ltd	Health Care Providers & Services	-34
HSP SP EQUITY	HC Surgical Specialists Ltd	Health Care Providers & Services	-39
MED SP EQUITY	Medtecs International Corp Ltd	Health Care Equipment & Supplies	3392
UGHC SP EQUITY	UG Healthcare Corp Ltd	Health Care Equipment & Supplies	1629
VPS SP EQUITY	Vicplas International Ltd	Health Care Equipment & Supplies	356
RSTON SP EQUITY	Riverstone Holdings Ltd/Singapore	Health Care Equipment & Supplies	254
QTVC SP EQUITY	QT Vascular Ltd	Health Care Equipment & Supplies	200
BLD SP EQUITY	Biolidics Ltd	Health Care Equipment & Supplies	18

Source: Bloomberg, KGI Research

Industrials

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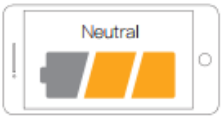
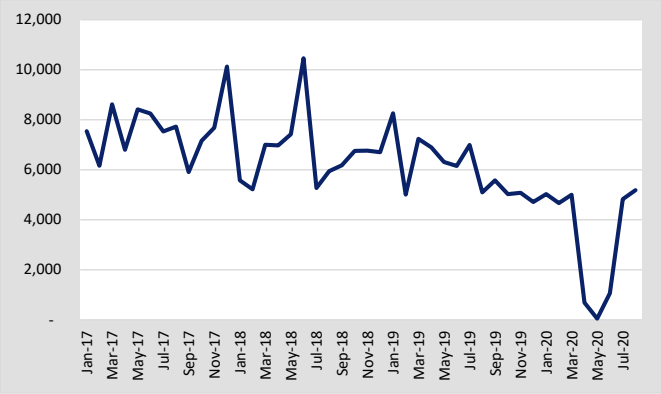


Industrials (which include conglomerates) have been one of the biggest underperformers in the Singapore market; the Jardines had weaker performance in all segments – automotive (Astra International/JCNC), property development (Hongkong Land), surprisingly the supermarket business (Dairy Farm) also underperformed; other companies included in this sector mainly are in the auto or property upstream/downstream, and have had business affected from weaker demand and lower construction output.

While vehicle sales and COE prices have kept steady after the mandated COE suspension period, the automotive sector remains fairly weak as a whole as the bulk of the ASEAN region and population continue to grapple with high Covid-19 spread.

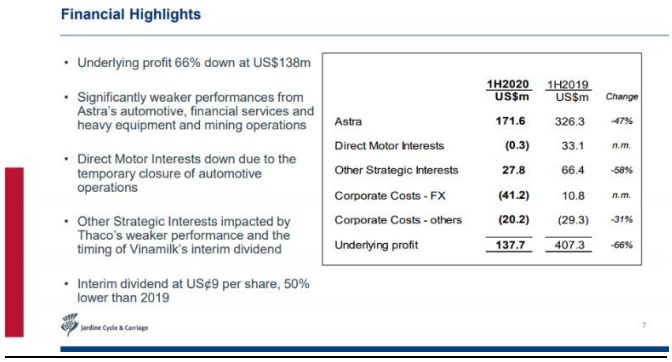
On the construction end, the Building and Construction Authority (BCA) has lowered 2020 forecast of construction demand from S$28-33 bn to S$18-23bn, a S$10bn decrease which is about 1/3 of yearly construction output. Construction activity in the public sector is poised to recover before the private sector, but we think the recovery will likely be mid-late 2021, as dormitory Covid-19 cases continue to surface. While construction companies are likely to face higher pass-through costs from dormitory operators due to the implementation of safe distancing measures, we think the market has priced in respective weakening of margins. As such we hold a NEUTRAL outlook for the industrial sector.

Figure 5: New vehicle sales in Singapore collapse due to COE bidding suspension but recovers in July, overall still YoY downtrend



Source: CEIC, KGI Research

Figure 6: ASEAN automotive with weak results, likely to stay weak through 2020



Financial Highlights

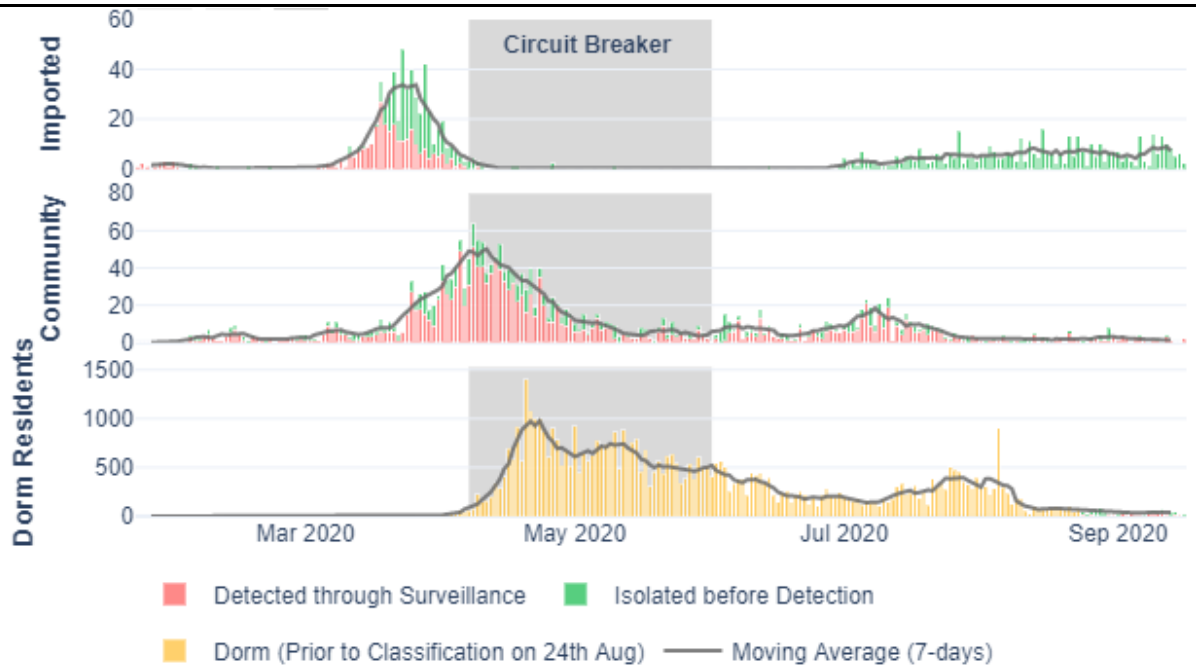
- Underlying profit 66% down at US$138m
- Significantly weaker performances from Astra's automotive, financial services and heavy equipment and mining operations
- Direct Motor Interests down due to the temporary closure of automotive operations
- Other Strategic Interests impacted by Thaco's weaker performance and the timing of Vinamilk's interim dividend
- Interim dividend at US¢9 per share, 50% lower than 2019

	1H2020 US$m	1H2019 US$m	Change
Astra	171.6	326.3	-47%
Direct Motor Interests	(0.3)	33.1	n.m.
Other Strategic Interests	27.8	66.4	-58%
Corporate Costs - FX	(41.2)	10.8	n.m.
Corporate Costs - others	(20.2)	(29.3)	-31%
Underlying profit	137.7	407.3	-66%

Jardine Cycle & Carriage

Source: JCNC, KGI Research

Figure 7: Covid-19 cases in Singapore under control in September, but May-July dormitory cases plus circuit breaker caused significant slowdown



Source: Ministry of Health, KGI Research

Property

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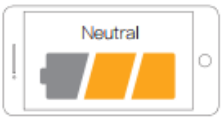
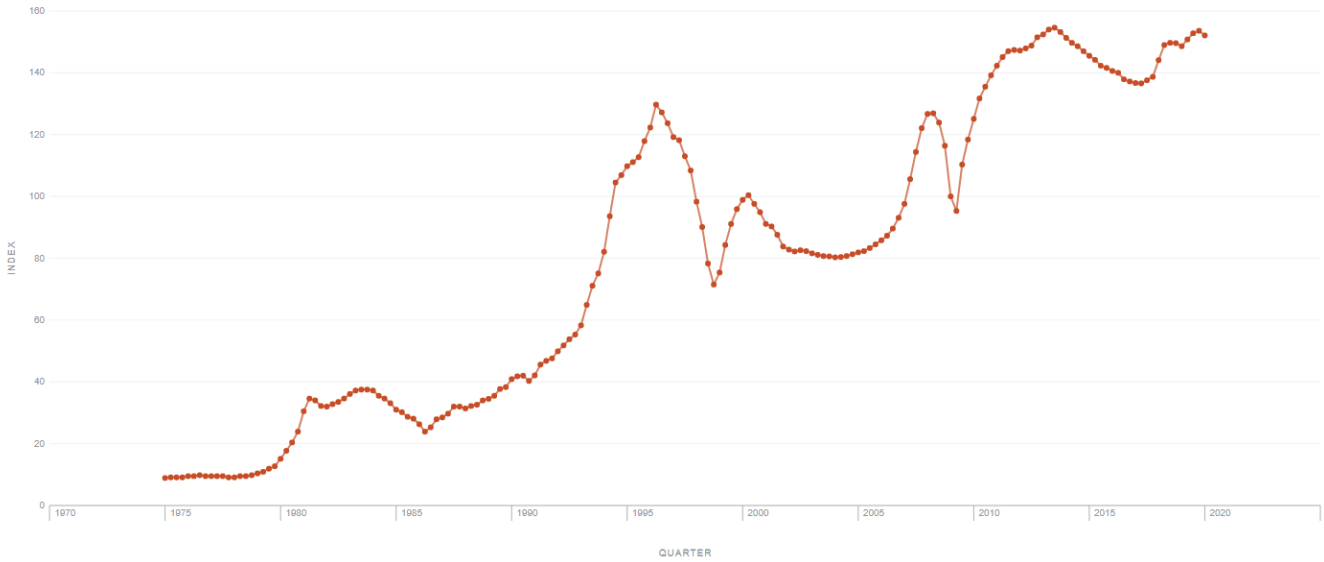


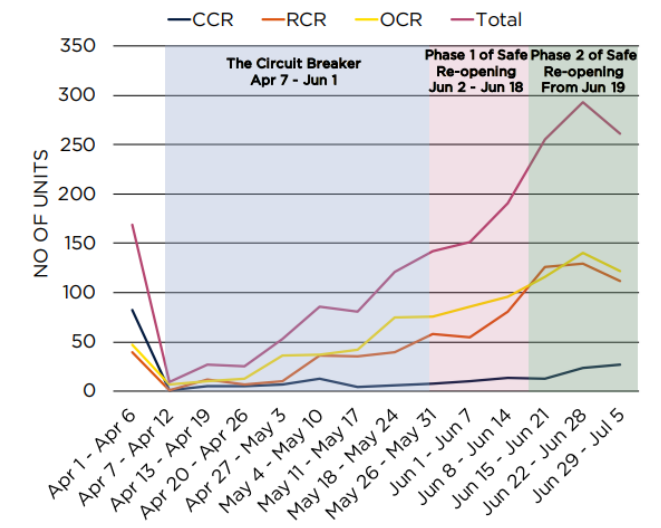
Residential property sales bode well for developers in the final quarters of 2020, as they have come back with a vengeance after the lifting of circuit breaker measures in June, especially since buyers have had months of idealizing their new homes and doing extensive research while being cooped up in their own homes. New home sales surprisingly shot up to 255 in the week of June 15th to June 21st, and increased further to 293 units in the following week from June 22nd to June 28th. The resale market too, while lacking in transaction volumes during the same period of two weeks from June 15th to June 28th, saw an increase in the median prices per square foot of close to 2.0%. To say the least, the performance of the private residential market in the second quarter showed off the resilience of Singapore's property market. While URA's flash estimates (derived based on transactions from the start of the quarter till mid-June) initially showed a 1.1% QoQ fall in prices for 2Q20, the index not only reversed, but showed a 0.3% increase after the final tally. This means that transactions in the last two weeks of June were hefty enough to essentially swing the price index by a significant 1.3%. Moving into the last quarter of 2020, we do not see the trend slowing down, especially as developers' pent-up launches line up after months of delay and postponement due to Covid-19.

Figure 8: Singapore property price index



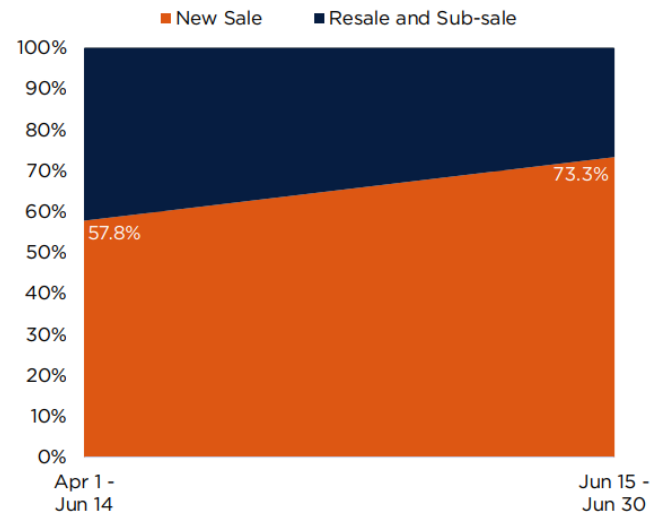
Source: Urban Redevelopment Authority (URA), KGI Research

Figure 9: New sales volumes of private residential units, April – June 2020



Source: URA, Savills Research & Consultancy, KGI Research

Figure 10: Share of new sale and resale and sub-sale transactions, April – June 2020



Source: URA, Savills Research & Consultancy, KGI Research

However, the most concerning limitation to the property sector is the potential construction delays and thus deferment of revenue recognition in the coming months. As previously explained in the sectors above, we think that recovery will only likely begin in mid-late 2021, as the government exercises greater caution due to the resurfacing of foreign worker dormitory Covid-19 clusters. The hospitality sector is also still reeling from the impact of Covid-19, with no international tourism nor domestic demand given the safety measures that have been strictly put in place. As such, we hold a conservative stance and remain neutral on the property sector, as 2021 is likely to present more headwinds.

REITs

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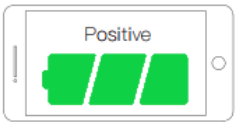
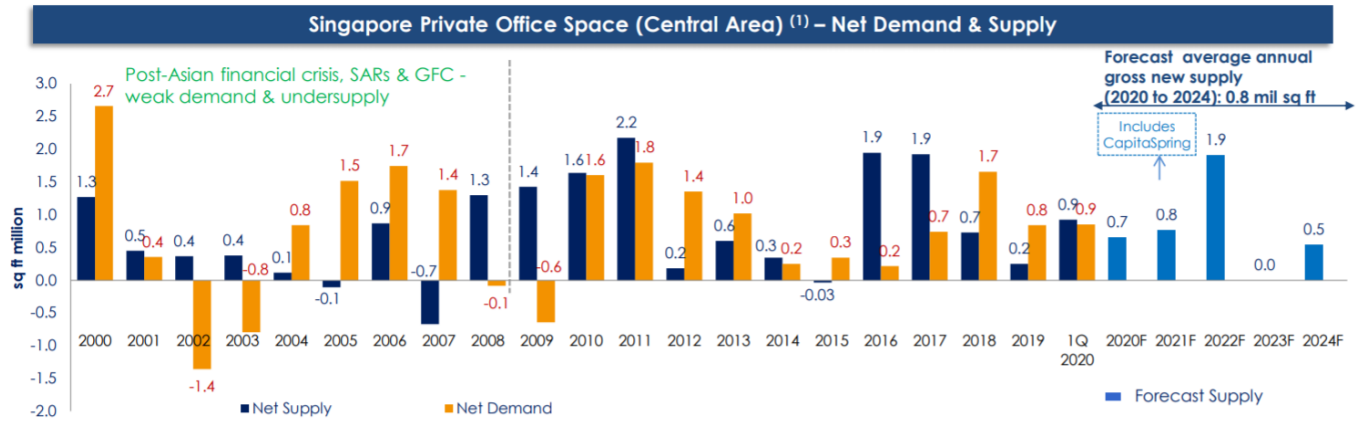


Other than the industrial and data centre sectors, most REITs have performed dismally YTD, with hospitality and retail REITs bearing the brunt of the Covid-19 impact. From forced closures to months of rental rebates, many have also cut dividend yields for FY20 in addition to turning on cash-conservation mode by delaying capital expenditures and/or property improvement plans (PIPs). That said, we believe that the highly discounted valuations, especially of those operationally and financially stable, provides for an attractive investment opportunity as we see glimmers of hope for recovery in 2021. As the number of positive Covid-19 cases have begun to stabilise close to zero in Singapore, the Singapore government has been relaxing restrictions on gatherings, entertainment and leisure activities, and even staycations. Every adult Singaporean is set to receive $100 worth of digital 'SingapoRediscovers' vouchers in December 2020 to spend on staycations, leisure attractions and tours, giving a much-needed boost to retail spending and hotel stays in early 2021.

We think commercial REITs have also seen the bottom of the barrel as the economy begins to see signs of recovery, with many already returning to work. We do not expect vacancy rates to increase significantly among Grade A offices, as Singapore is also coming into the spotlight for Chinese companies wanting to expand their presence in Southeast Asia for its staunch neutrality amidst worsening political tensions in Hong Kong, between China and the US and other parts of the world. Tech giants such as Tencent and ByteDance (TikTok's parent company) have set eyes on Singapore as part of their strategic expansion plans. Additionally, as we factor in tapering supply going into 2021, we thus expect a net positive effect on demand and in turn prices for office space going forward. We believe that offices will still remain as core parts of business strategies, workflows and culture, as they provide a space and platform for effective collaboration and communication amongst teams, despite any trends towards work-from-home or flexible working arrangements.

Figure 11: Singapore private office space (Central Area) – Net demand & supply



Periods	Average annual net supply(2)	Average annual net demand
2010 – 2019 (through 10-year property market cycles)	1.0 mil sq ft	1.0 mil sq ft
2015 – 2019 (five-year period post GFC)	1.0 mil sq ft	0.8 mil sq ft
2020 – 2024 (forecast gross new supply)	0.8 mil sq ft	N.A.

Source: CapitaLand Commercial Trust, URA, CBRE, KGI Research

Figure 12: Price performance of REITs, YTD (%)

Bloomberg Ticker	Company Name	Sub-sector	YTD Price Performance (%)
MINT SP EQUITY	Mapletree Industrial Trust	Industrial	27
MLT SP EQUITY	Mapletree Logistics Trust	Industrial	21
FLT SP EQUITY	Frasers Logistics & Commercial Trust	Industrial	13
AREIT SP EQUITY	Ascendas Real Estate Investment Trust	Industrial	12
ECWREIT SP EQUITY	EC World Real Estate Investment Trust	Industrial	-4
ALLT SP EQUITY	ARA LOGOS Logistics Trust	Industrial	-6
AAREIT SP EQUITY	AIMS APAC REIT	Industrial	-12
SSREIT SP EQUITY	Sabana Shari'ah Compliant Industrial REIT	Industrial	-16
EREIT SP EQUITY	ESR-REIT	Industrial	-21
KORE SP EQUITY	Keppel Pacific Oak US REIT	Commercial	-1
SBREIT SP EQUITY	Soilbuild Business Space REIT	Commercial	-1
IREIT SP EQUITY	IREIT Global	Commercial	-5
AIT SP EQUITY	Ascendas India Trust	Commercial	-7
CERT SP EQUITY	Cromwell European Real Estate Investment Trust	Commercial	-7
PRIME SP EQUITY	Prime US REIT	Commercial	-9
KREIT SP EQUITY	Keppel REIT	Commercial	-9
CCT SP EQUITY	CapitaLand Commercial Trust	Commercial	-10
ELITE SP EQUITY	Elite Commercial REIT	Commercial	-10
MCT SP EQUITY	Mapletree Commercial Trust	Commercial	-16
SUN SP EQUITY	Suntec Real Estate Investment Trust	Commercial	-17
MAGIC SP EQUITY	Mapletree North Asia Commercial Trust	Commercial	-17
MUST SP EQUITY	Manulife US Real Estate Investment Trust	Commercial	-19
OUECT SP EQUITY	OUE Commercial Real Estate Investment Trust	Commercial	-32
DASIN SP EQUITY	Dasin Retail Trust	Retail	3
FCT SP EQUITY	Frasers Centrepoint Trust	Retail	-4
SASSR SP EQUITY	Sasseur Real Estate Investment Trust	Retail	-8
UHU SP EQUITY	United Hampshire US REIT	Retail	-13
CT SP EQUITY	CapitaLand Mall Trust	Retail	-16
SPHREIT SP EQUITY	SPH REIT	Retail	-17
BHGREIT SP EQUITY	BHG Retail REIT	Retail	-19
LREIT SP EQUITY	Lendlease Global Commercial REIT	Retail	-25
CRCT SP EQUITY	CapitaLand Retail China Trust	Retail	-25
SGREIT SP EQUITY	Starhill Global REIT	Retail	-35
LMRT SP EQUITY	Lippo Malls Indonesia Retail Trust	Retail	-48
FEHT SP EQUITY	Far East Hospitality Trust	Hospitality	-23
ART SP EQUITY	Ascott Residence Trust	Hospitality	-27
CDREIT SP EQUITY	CDL Hospitality Trusts	Hospitality	-31
FHT SP EQUITY	Frasers Hospitality Trust	Hospitality	-38
ARAUS SP EQUITY	ARA US Hospitality Trust	Hospitality	-59
KDCREIT SP EQUITY	Keppel DC REIT	Data Centre	47
PREIT SP EQUITY	Parkway Life Real Estate Investment Trust	Healthcare	29
FIRT SP EQUITY	First Real Estate Investment Trust	Healthcare	-51

Source: Bloomberg, KGI Research

With no sign of recovery for interest rates in the near future, we remain positive on REITs as they offer above market yields (>4%) at current prices, given that Singapore banks have also been forced to cap their dividend payouts. We believe that most have seen their darkest days and will continue trending upwards, along with GDP growth recovery over the coming quarters.

Technology

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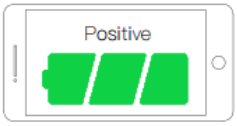
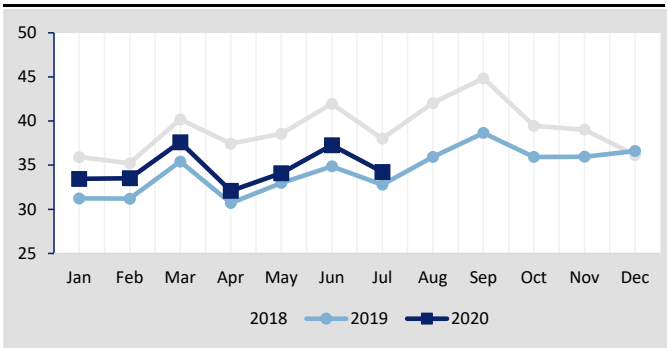


Technology was one of few bright spots in the economy and stock market, as the sector largely saw benefits from Covid-19. While there were initial fears over mandated capacity reduction and supply chain disruption, production levels have largely restored to normal levels in 2H20. Semiconductor-related players led sector outperformance as 2020 is shaping out to be a stronger year than 2019. Electronic Manufacturing Services (EMS) players have not done as well as electronics manufacturing continues to be a laggard, with production and outlook still below average.

While there has been a recent sell-down in the tech sector in the 2nd week of September, we remain confident that SG Technology will continue to do well, as subsector tailwinds are still present and contribute to improving financial performances. Valuations also are fairly unchallenging across the board. In the semiconductor space, we have AEM Holdings as our top pick, while ISDN Holdings is our pick in the industrial manufacturing subsector as they ride upon growth in the automation sector.

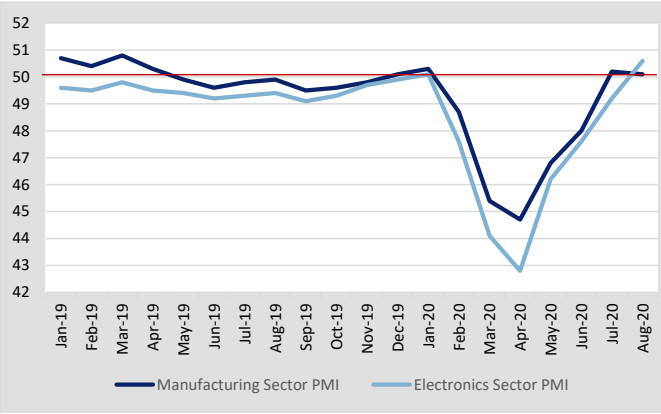
For software-related plays, we look towards HKSE, where valuation re-ratings coupled with increased internet traffic and improved monetization have boosted share price performance of software companies to new highs. In the near term, we like Alibaba amongst Chinese Big Tech as the listing of Ant Financial will give investors a better appreciation of Alibaba's underlying value. We also recommend staying away from smartphone and semiconductor plays in the Chinese market, as geopolitical instability from US-China trade tensions coupled with above average valuations translate to higher downside than upside risk.

Figure 13: 2020's semiconductor sales remain steadily above 2019's trough



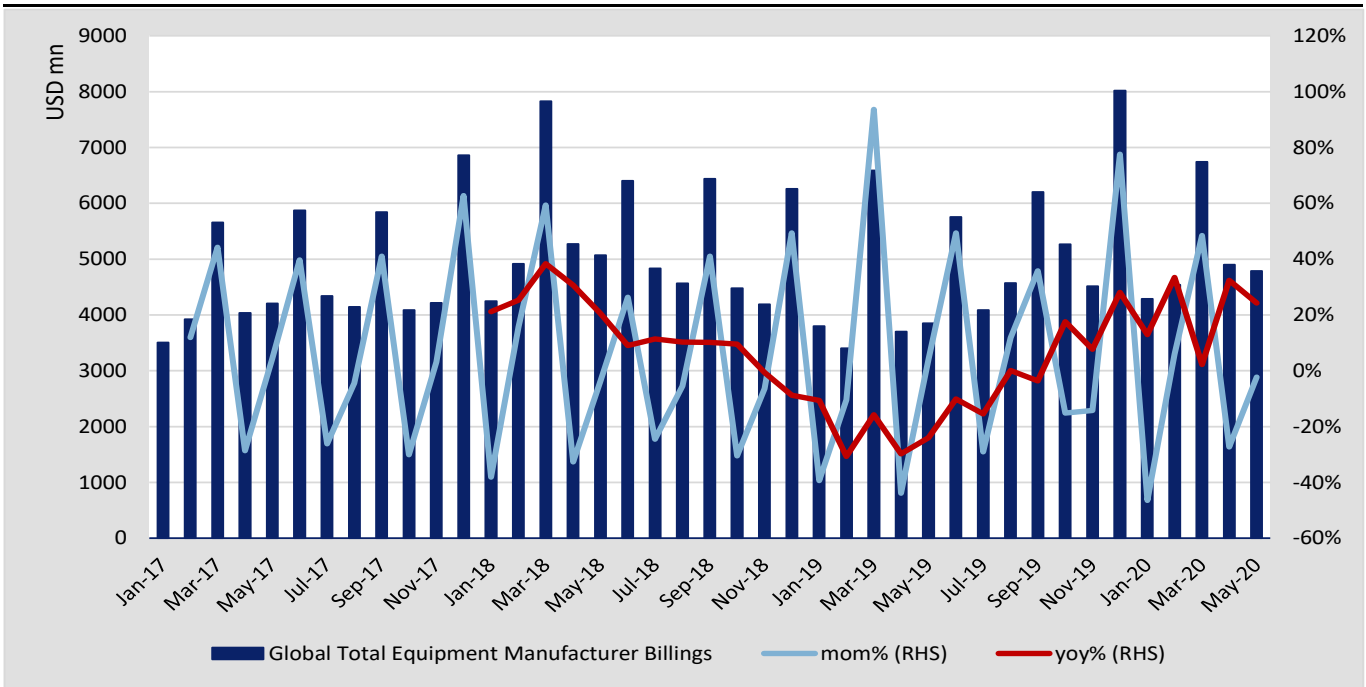
Source: WSTS, KGI Research

Figure 14: Electronics sector PMI has only just exceeded 50 in Aug reading



Source: SIPMM, KGI Research

Figure 15: Semi Capital Equipment billings at 20+% YoY growth in both April and May



Source: SEMI, KGI Research

Telecom

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Traditionally a defensive sector, telecommunication names have also been one of the worst performers amidst the pandemic, as they continue to struggle against long term headwinds of increased competition from their virtual counterparts. Travel lockdown has led to lower roaming fee charges, while reduced footfall in retail stores also contributed to lower turnover. While the advent of 5G may look to breathe some life into the businesses, we think the lack of a concrete retail use case will limit the pricing power of 5G over 4G, and thus we expect the multi-year declination of ARPUs, revenues and profits to persist. UNDERPERFORM.

Transport

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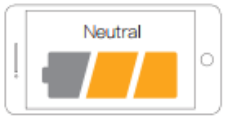
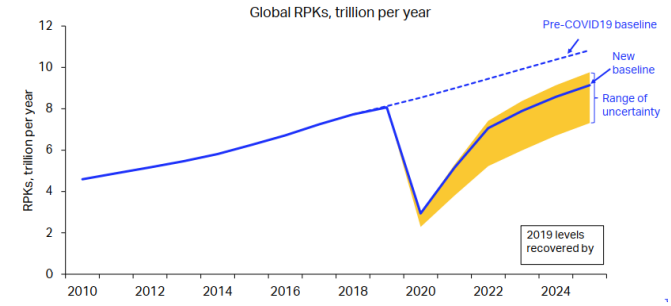


As one of the hardest hit sectors from the impact of the lockdowns, transportation companies and support-related businesses face an uphill battle over the next three years. According to the International Air Transport Association (IATA), air travel is only forecasted to recover back to 2019 levels by 2024, which is negative news for many airlines and service companies in the aviation sector.

Figure 16: IATA's air travel (by RPK) is expected to only recover to 2019 levels by 2024



Source: IATA/Tourism Economics 'Air Passenger Forecasts' July 2020

In Singapore's context, all airlines related companies, including Singapore Airlines, SATS and SIA Engineering are still down by 30-44% year-to-date. While Singapore Airlines raised S$8.8bn in its capital raising exercise in 1H2020, it is still not out of the woods yet, as we expect the need for more capital to sustain it through the harsh winter given the lack of a domestic market. ST Engineering, while the largest aircraft maintenance, repair and overhaul (MRO) company in the world, outperformed the STI due to its diversified businesses. As Singapore transport companies are heavily reliant on external demand, coupled with the slow and uncertain lifting of international travel restrictions, we opt to be neutral on the transport sector in 4Q20.

FIXED INCOME

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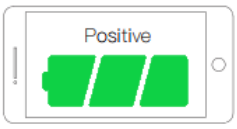
With the onset of Covid-19 and the lockdown-induced recession in the first half of 2020, governments and central banks were faced with two options. The first was to limit the fiscal and monetary response, thereby allowing a deleveraging of the already high levels of debt in developed economies. Given that this option would have allowed for companies and individuals to default, it would have likely led to a deflationary spiral and a central banker's worst nightmare.

The second, and the option that authorities around the world chose, was to embark on massive fiscal and monetary stimulus. With monetary policy stuck near the zero bound, governments aggressively rolled out fiscal stimulus to support the economy. In Singapore alone, the government announced a budget of almost S$100bn this year to support both businesses and workers. As a result of the unprecedented surge in liquidity, financial instruments across the whole risk spectrum have rallied sharply from the lows witnessed in March 2020. While the implementation of unprecedented monetary and fiscal stimulus prevented a collapse that would have rivalled the great depression, governments will ultimately be faced with the highest debt levels in history, one that is clearly not sustainable without hurting economic growth moving forward.

Overall, we expect that central banks will likely maintain a low interest rate policy for several years to come. In the latest Fed meeting that concluded on 16 September 2020, all 17 officials expected to keep rates near zero at least through 2021, and 13 officials expected rates to stay near zero through 2023. Reinforcing the lower-for-longer interest rate environment, most Fed officials also expected interest rates to stay near zero for the next three years even if inflation were to reach 2.0% and the unemployment rate improves to around 4.0%. This new guidance could convince markets that the Fed, and for that matter, other major central banks, will not raise rates aggressively even after the pandemic has been controlled and the economy is on a firm footing.

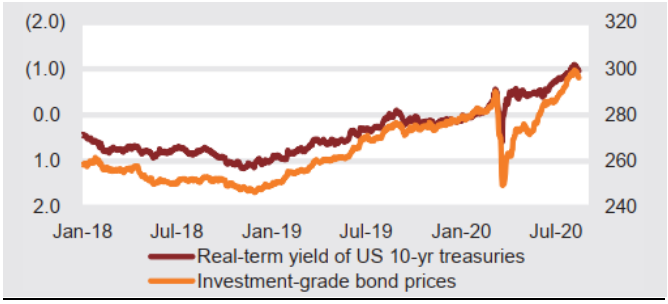
Investment Grade bonds



In addition to lowering policy interest rates, most of the world's major central banks also adopted quantitative easing to release liquidity into financial markets through bond purchases. Due to the abundant liquidity, coupled with rising inflation expectations as the economy recovers, central bank bond purchases have suppressed nominal interest rates on mid to long term bonds, resulting in low real interest rates or even a negative real interest rate environment, which has caused liquidity to flow into various financial instruments for positive returns, including a rapid rise in the P/E ratios of equities and a rapid reduction in credit spreads on corporate bonds.

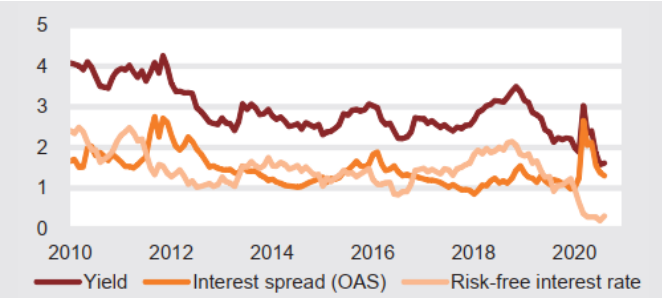
While the global recovery has allowed risk-free rates to bottom out, unemployment remains high and inflation is still far from targets. As a result, central banks will likely continue to supress mid and long term interest rates with massive quantitative easing. Although credit spreads on investment debt have narrowed significantly, we expect that the negative real interest rate environment will continue to reduce credit spreads on investment grade bonds.

Figure 17: Real negative interest rates have led to a "hunger for yield" effect in the market (US 10yr real yield inverted, LHS; Investment grade bond price index, RHS)



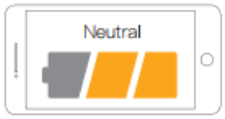
Source: Bloomberg, KGI Research

Figure 18: Risk-free interest rate has limited downside, but credit spreads may still have downside potential



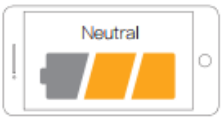
Source: Bloomberg, KGI Research

High yield bonds



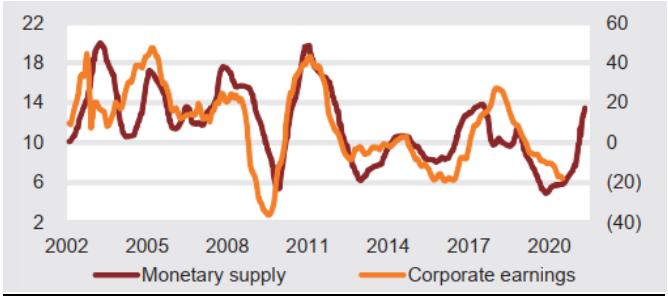
US High yield bonds have seen credit spreads narrow as investment grade corporate bonds' credit spreads shrink under a series of Fed bailouts in late March. Although the current credit spreads are still 120bps away from the 2018-2019 average of 3.83%, the several service-related sectors have been hit hard by the sharp recession brought about by Covid-19 this year. Thus, it will be difficult for economic conditions to return to 2019 levels in the near term. Enterprises with weaker fundamentals might face a higher risk of defaulting on debt, and debt reclaim ratios will be lower than before. Overall, yields on income bonds adjusted for defaults are quite low. Thus, we remain neutral on high yield bonds as investors should be aware of risks in this space.

Emerging market bonds



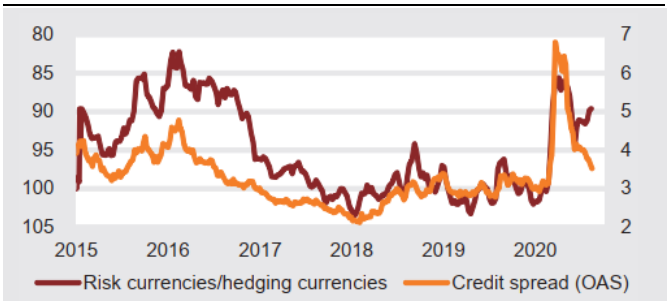
Emerging markets' corporate earnings are expected to improve, led by a weaker US dollar and the easing of monetary policy in emerging markets. With changes in the money supply about nine months ahead of corporate earnings, we expect year-on-year growth of corporate earnings to bottom out in the second half of 2020 for emerging markets as a whole, and the improvement in corporate earnings to help the financial position of emerging market debt and further allow credit spreads on emerging market debt to fall. On the currency front, the average exchange rates of emerging market currencies against the US Dollar are up but this was mainly due to currency appreciation seen in China, South Korea and Taiwan, while the rest of the world did not see significant exchange rate appreciation against the US dollar. Recently, risk currencies such as Australia, Indonesia, Mexico and Russia have once again depreciated against safe-haven currencies (Japan and Switzerland) and this indicator has long had a high positive correlation with emerging market debt credit spreads.

Figure 19: Increased monetary supply is expected to lead to improvement in corporate earnings (EM narrowly-defined monetary supply YoY, adv nine months, LHS; EM corporate earnings YoY, RHS)



Source: Bloomberg, KGI Research

Figure 20: EM debt will benefit from stronger currencies (risk currency/hedging currency exchange rates, inverted, January 2015=100, LHS; credit spread, OAS, RHS)



Source: Bloomberg, KGI Research

KGI bond recommendations

Against the backdrop of a lower-for-longer interest rate environment, as well as a robust bounce back in the global economy, we recommend taking the opportunity to diversify from the highest grade issuers and into names like Metro Holdings and Olam International. Thus, our recommendations are a combination of Sing dollar bonds (e.g., Metro 4.3 '24, WINGTA 3.68 '30) and Sing dollar perpetuals (e.g., FPLSP 4.98 'PERP, KITSP 4.75 'PERP) that are still offering yields of near or above 4.0%.

Fixed income

Issuer	Issue	Currency	Price	YTM (ASK)
Metro Holdings	METRO 4.3 04/02/24	SGD	99.844	4.21
Wing Tai	WINGTA 3.68 01/16/30	SGD	99.000	3.70
Olam	OLAMSP 4 02/24/26	SGD	99.586	4.05
Shangri-La Asia	SLHSP 4 1/2 11/12/25	SGD	103.989	3.58

Source: Bloomberg, KGI Research

Perpetuals

Issuer	Issue	Currency	Price	YTM (ASK)
Frasers Property	FPLSP 4.98 PERP	SGD	101.006	4.52
Keppel Infrastructure Trust	KITSP 4 3/4 PERP	SGD	101.301	4.54
GuocoLand	GUOLSP 4.6 PERP	SGD	99.929	4.28

Source: Bloomberg, KGI Research

Key risk to bonds

A key risk for fixed income instruments is the US Fed's new monetary policy framework that allows for inflation to overshoot on the upside. Combined with structural changes brought about by the pandemic and the ongoing trade war, there is the possibility that inflation may surprise on the upside and would have the biggest impact on bonds. However, for the moment, it is still debatable whether the current monetary and fiscal regime will lead to runaway inflation.

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Rating	Definition
Outperform (OP)	We take a positive view on the stock. The stock is expected to outperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Neutral (N)	We take a neutral view on the stock. The stock is expected to perform in line with the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon.
Underperform (U)	We take a negative view on the stock. The stock is expected to underperform the expected total return of the KGI coverage universe in the related market over a 12-month investment horizon
Not Rated (NR)	The stock is not rated by KGI Securities.
Restricted (R)	KGI policy and/or applicable law regulations preclude certain types of communications, including an investment recommendation, during the course of KGI's engagement in an investment banking transaction and in certain other circumstances.

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