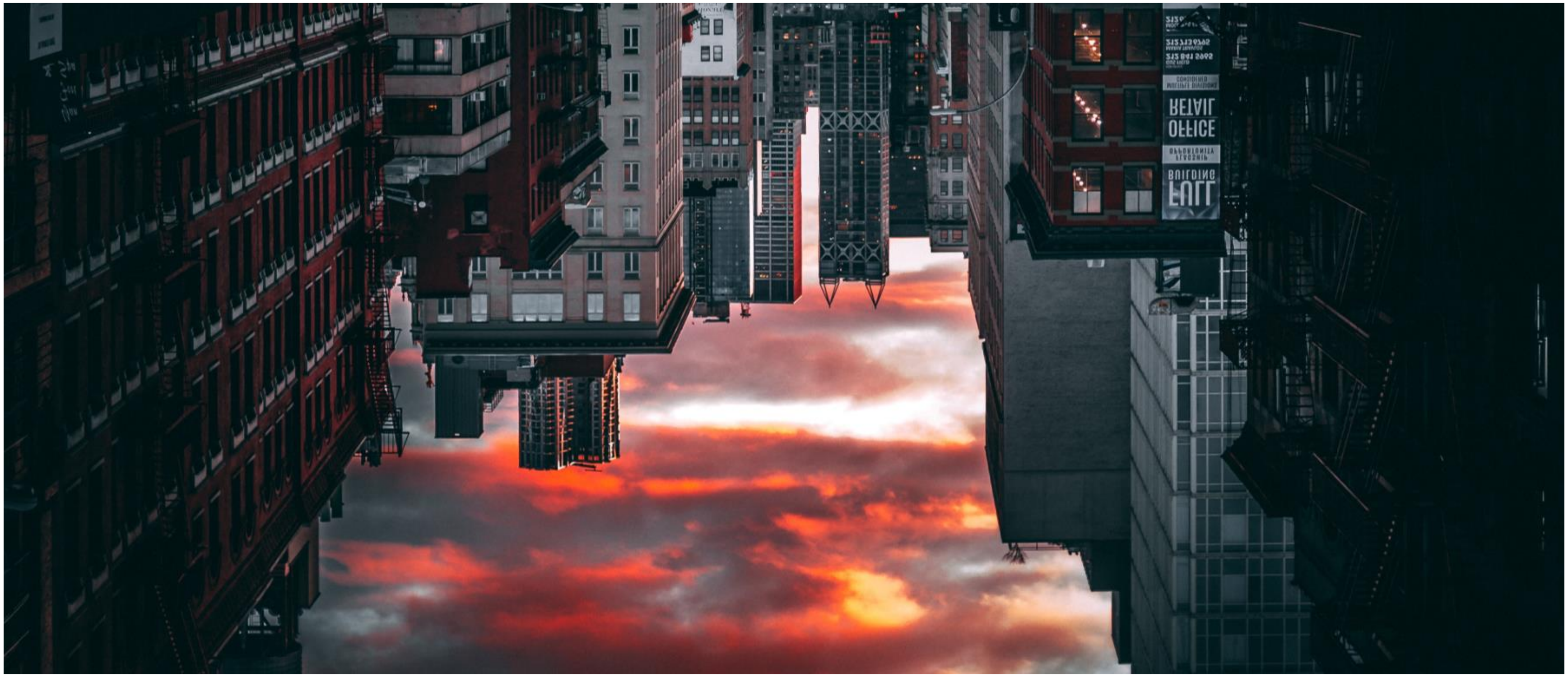


BOTTOM

FOR SINGAPORE EQUITIES

APR 2020; 9M 2020 OUTLOOK; TLDR* VER.

KGI (SINGAPORE) RESEARCH TEAM

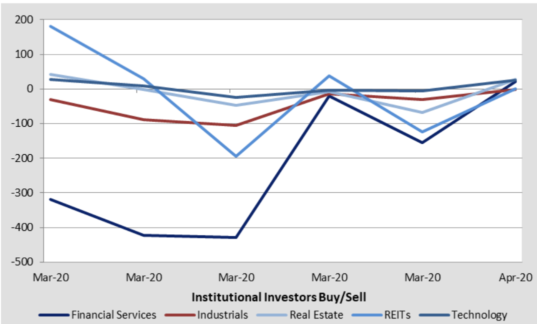
*TLDR: used to show a brief summary of a report as the original might have been too long

Sector	Products / Stocks
Commodities	Oil (USO US; 883 HK) Gold (GLD US; GDX US; GDXJ US; 1787 HK)
Technology	AEM (AEM SP) Western Digital Corp (WDC US) Microsoft (WDC US)
REITs	CapitaLand Mall Trust (CT SP) Mapletree Commercial Trust (MCT SP) Frasers Centrepoint Trust (FCT SP) Ascott Hospitality Trust (ART SP) Far East Hospitality Trust (FEHT SP)
Aviation	SATS (SATS SP) SIA Engineering (SIE SP)

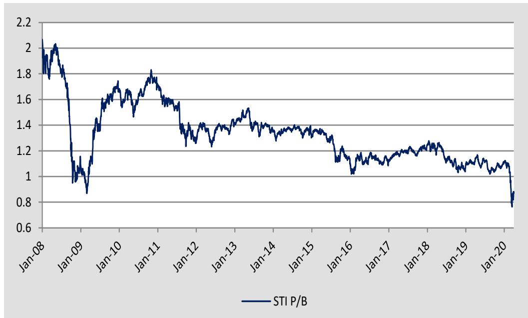
THE TIME IS NOW

1. Fund outflows from Singapore equities have significantly slowed down
2. "Peak shutdown"* likely priced into financial markets
3. Cheap valuations and attractive dividend yields
4. Stronger SGD going forward

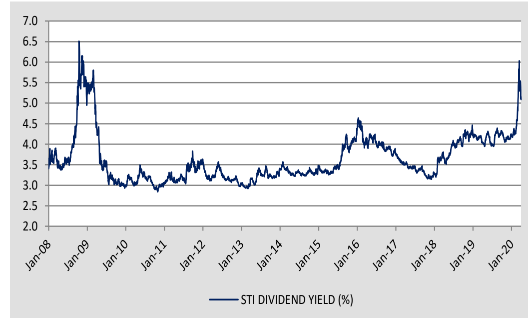
* **peak shutdown** *n.* maximum amount of disruption caused by the government imposed lockdowns



Source: SGX, KGI Research



Source: Bloomberg, KGI Research



Source: Bloomberg, KGI Research

+ SGD has remained relatively stable.
As such, investors looking at Asian equities may prefer investing into Singapore equities, especially as the dividend yield differential for income-producing stocks such as the banks and the REITs becomes too wide to ignore.

COMMODITIES

Fertilizers and Basic metals are hardest hit
The most common raw materials that are cut down on first when businesses streamline production.

Energy and Fertilizers have the widest range of price fluctuation
Extremely vulnerable to swings in demand and supply.

Agriculture is the most stable
Indispensable, unwavering demand, crisis or not.

√ **Energy is the most resilient**
Fastest recovery post recession as demand recovers.

√ **Precious metals perform the best**
No unfavourable supply/demand dynamics, stable, safe haven assets, especially when the distortion of monetary systems become more significant.

Buy The Dip - Oil

Since the current oil market slump was simply a result of expectations of an unprecedented level of supply glut, the imbalance will subside or reverse completely once supply increases and demand decreases.

OPEC+ announced a preliminary 10 mbd output cut on 9th April. Assuming the output cut is fulfilled and COVID-19 is contained in 2Q19, Brent could recover to at least mid-US$30/bbl which provides 40% gains.

We believe investors could consider accumulating long positions at the level of US$25/bbl.

Hedge The Downturn - Gold

The last bull cycle of gold, from March 2009 to August 2011, was built on three cornerstones:
1) Quantitative easing for the first time in history;
2) Zero interest rate environment; and
3) Confidence in the dollar.

1) The Fed and US government has taken unprecedentedly aggressive stimulus measures;
2) The zero interest rate environment is expected to prolong since the recovery of the economy relies on the resumption of consumption; and
3) Cash hoarding will not last, as the incoming "unlimited" dollar supply will re-inflate asset prices, attracting money back into the market.

Our target price for gold is an all-time high of US1,900/oz.

TECHNOLOGY

In the current economic climate, we recommend data centric plays that will see the best revenue visibility and outlook, amidst the poor economic backdrop.

AEM (AEM SP)/ OUTPERFORM TP S$2.60

We remain confident for AEM's prospects, despite short term production and delivery delays. AEM has held on to its S$360 – 380mn revenue guidance, and our channel checks confirm that AEM is still receiving new orders from key customer Intel.
Additionally, AEM is likely to see positive news from its TMS division, as China and Huawei will continue with 5G rollout plans. Our price target for AEM remains at S$2.60.

WESTERN DIGITAL (WDC US)/ NOT RATED

WDC is well-positioned to benefit from data centre proliferation; despite having less HDD market share than Seagate, WDC has a strong foothold in flash and SSD devices.
This enables WDC to participate in catalysts such as the console refresh cycle that occurs later this year. WDC also trades at relatively cheaper valuations to competitors.

MICROSOFT (MSFT US)/ NOT RATED

Despite early warnings from Microsoft about their laptop sales, the warnings were mainly production-related, and we think Microsoft may be able to reach the lower end of their quarterly guidance. Additionally, we see Microsoft's software suite, specifically Microsoft Mixer and Microsoft Teams, to see increased usage in the current lockdown situation.
Our only gripe is that recent price recoveries have brought MSFT above 30x P/E, which is above their +1 S.D.

REITS

Valuations for the Retail and Hospitality REITs remain depressed, with many at 10-year historical lows, yet will inevitably rebound as domestic consumption and tourism resumes towards the second half of 2020. We are expecting a 30-50% cut across the board in distributions. However, we believe that DPUs should revert by 2021-2022.

CAPITALAND MALL TRUST (CT SP) / NOT RATED

Its assets are well divided between mostly in the Central regions and suburban regions of Singapore. Not only do the suburban malls provide resilience during circuit breaker measures, but its prime locations in the Central regions will help boost its turnaround post Covid-19.
Further, we note that should the proposed merger with CapitaLand Commercial Trust go through succeed, CapitaLand Integrated Commercial Trust (CICT) will be the largest REIT in Singapore, and the third-largest in Asia-Pacific. Higher trading liquidity and a potential for positive re-rating could also bring a more competitive cost of capital for CICT.

MAPLETREE COMMERCIAL TRUST (MCT SP) / NOT RATED

We note that MCT seems to be undervalued at current prices, as we see significant upsides in the coming years due to the development of the Greater Southern Waterfront (GSW) that will bring a new surge in residential population and vibrancy in just a few years.
While DPU and revenues may temporarily be dislodged for 2020, we believe there may be significant upsides from 2021 post Covid-19.

ASCOTT RESIDENCE TRUST (ART SP) / NOT RATED

ART's positioning in the SRs space attracting largely corporate guests, provides some defensiveness during a time where leisure travel, domestic or international, has come to a screeching halt. While movements may be restricted with many countries currently on partial to full lockdowns, we think that business travel will be first to rebound as soon as restrictions see some easing.

FAR EAST HOSPITALITY TRUST (FEHT SP) / NOT RATED

FEHT sees fairly equal contributions from leisure and corporate demand, across its hotels and SRs respectively. Similar to ART's corporate positioning, we see a similar case to be made for FEHT, but its leisure properties (mainly hotels) further supported by domestic demand for 'staycations' post circuit breaker measures.
All of FEHT's hotels and SRs are on 20-year master leases, with c.60% fixed rent.

AVIATION

Rotate from SIA and into SATS and SIA Engineering.

Great airline, just not a good investment. Even while SIA has consistently ranked amongst the best airlines in the world, we view the risk/reward investment dynamics as simply unfavourable for most investors. SIA currently trades at all-time lows in terms of price-to-book valuation, but this is not meaningful if the book value is expected to decline when factoring in losses from write-offs/impairments and shareholder dilutions from capital raising exercises.

SIA ENGINEERING (SIE SP)/ NOT RATED

Prior the outbreak of COVID-19, SIE was already on a path to recovery, driven by years of transformational efforts.
While short-term outlook is challenging, SIE is well prepared with a strong net cash of S$373mn as at end December 2019.
SIE's P/B is now at the lowest level as seen in the 20-year historical P/B chart below.
Unlike its parent company, SIA, which will likely recognise losses this year, SIE is still forecasted to remain profitable this year.

SATS (SATS SP)/ NOT RATED

As one of the world's top 10 ground handlers and inflight meals caterers, SATS enjoys an enviable position and a major beneficiary of Changi Airport's (Changi) sizable expansion in the next decade, given that it controls 80% of Changi's ground-handling and catering business.
Valuations are not that cheap compared to SIE or SIA, but this is due to its dominant position, which places it in a sweet spot that enables it to ride on the world's fastest growing aviation market.

KGI's Ratings

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.