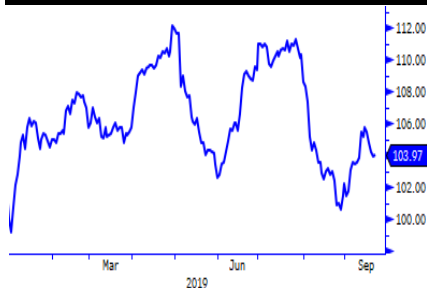


**Market Indicators**

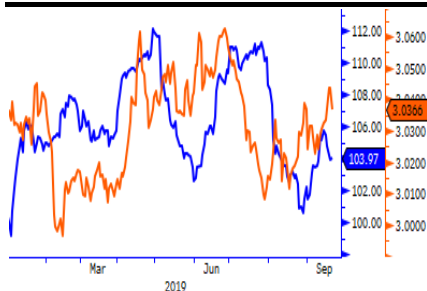
	18-Sep	19-Sep	20-Sep
Mkt. T/O (S\$ mil)	899.5	844.2	1,575.3
Stock Advances	169	163	152
Stock Declines	191	194	186

**Major Indices**

	18-Sep	19-Sep	20-Sep
DJ Ind Avg	27,147.1	27,094.8	26,935.1
S & P 500	3,006.7	3,006.8	2,992.1
Nasdaq Comp	8,177.4	8,182.9	8,117.7
Hang Seng	26,754.1	26,469.0	26,435.7

**STI Index** 3,159.68 (+0.03%)

*Source: Bloomberg*
**Commodities**

	Current % Chge from Price	Close
Gold (SPOT) US\$ / oz	1,515.05	0.66%
Oil (NYMEX CWT1) US\$ / bbl	58.73	0.39%
Baltic Dry Index	2131	-2.78%

**Exchange Rates**

**USD : SGD 1.3769 / MYR : SGD 3.0328**
*Source: Bloomberg*
**Interest Rates**

3-mth Sibor	1.878%
SGS (10 yr)	1.719%

**KGI Securities Research Team**
**KGI Market Ideas**

**Oil prices.** Even with the recent disruption to oil production caused by the attacks on Saudi Arabia, the world remains sufficiently supplied given the increasing production elsewhere and the ample strategic reserves that can be tapped in the event of a supply shortfall. We thus expect Brent oil prices to trade between US\$60 and US\$70 per barrel for the rest of 2019, with risks tilted towards the downside.

**Largan (3008 TT).** We expect Largan's near-term momentum to be well supported by smartphone new product cycles. Despite a tepid global smartphone shipment outlook, we think the camera upgrade trend will continue. In addition, we believe enhanced ToF cameras for AR will be more widely adopted in 2020, which will stimulate overall lens industry demand. In our view, the negative impact of the Sino-US trade war and low smartphone shipment volume will be limited on Largan thanks to its diversified client base and strong technological leadership. We forecast 9.0% YoY sales growth and 12.8% YoY earnings growth in 2020.

While we anticipate 1Q20 sales to drop 44.0% QoQ, we believe the structural growth trend will remain solid. We expect key catalysts to be: (1) more 7P+ designs for flagship smartphones in 2020F, such as iPhone's telephoto lens; (2) accelerated growth for multiple-camera modules; and (3) continued market share gains in the Android camp. With robust YoY earnings growth likely in 2H19F and 2020F, we resume coverage of Largan with Outperform and a target price of NT\$4,800, based on 20x 2020F EPS, which is in the high end of the historical PE range, but reasonable considering its strong technological leadership and robust earnings outlook.

**Figure 1: Comparison – Largan's strong capabilities vs. its peers**

Company	Monthly capacity (unit)	Lens sales (US\$m)		Major clients	Notes
		2018	1H19		
Largan	160-180mn	1,652	771	Apple, Huawei, Oppo, Vivo, Xiaomi, Samsung	(1) New fab capacity could be 2x bigger in two years, depending on new project progress; focus on 6P+ high-end lens
Kantatsu	30mn	N.A.	N.A.	Apple, Huawei	(1) Boosted monthly output capacity by 20% to 30mn units in June
Genius	100mn	262	103	Apple	(1) Rights issues in 2H19 for new capacity expansion
SEMCO	30-40mn	444*	1,277*	Samsung, Xiaomi, Oppo	(1) Listed revenue is from camera modules as they only report those sales results* (2) Camera module is 80-85% of business
O-Film	15mn	18*	50*	Chinese smartphone	(1) Monthly capacity was 15mn units as of end-2018; to increase to 20mn units in 2019F (2) Lens revenue to external clients in 1H19 was Rmb230mn (US\$32mn)
Sunny Optical	120mn	792	496	Huawei, Oppo, Vivo, Lenovo, Meizu, Samsung	(1) Targets monthly capacity of 140-150mn units (2) Lens made up 23% and 24% of revenue in 2018 and 1H19, respectively; handset lens YTD shipment growth of 36.9% YoY, vs. guidance of 30% YoY (3) Vehicle lens set sales weighting was 6% in 2018 and 1H19
AAC	60mn	77	58	Vivo, Oppo, Xiaomi, Transsion	(1) Monthly capacity was 40mn at end-2018 (2) Expects to have monthly capacity of 70mn units by early 2020 (3) Monthly shipments were around 30mn units in 2Q19; targets 60mn units by year end

Source: Company data, Kantatsu, Genius, SEMCO, O-Film, Sunny, AAC, KGI Research  
\*SEMCO's camera module sales are adjusted to lens sales based on our estimates.  
\*O-Film's lens sales are from Management Discussion & Analysis in company filings.

**Commodities and Company Update**

- **Crude oil:** Dramatic week: between ice and fire - Page 3
- **Keppel DC REIT (KDCREIT SP; Upgrade to OUTPERFORM; TP: S\$ 1.95):** Gaining traction with twin acquisitions - Page 5
- **Manulife US REIT (MUST SP; OUTPERFORM, TP: US\$ 1.01):** California next on the menu; Benchmark inclusion insight - Page 7

**Recent In depth Regional Reports**

20/9	<b>SG</b> Crude oil: Dramatic week: between ice and fire
20/9	<b>TH</b> The Erawan Group (ERW TB; Neutral; TP: Bt 6.30): Bottom-line growth to be propelled by low earnings base
19/9	<b>SG</b> Manulife US REIT (MUST SP; OUTPERFORM, TP: US\$ 1.01): California next on the menu; Benchmark inclusion insight
19/9	<b>US</b> Economics: Cyclical stocks to outperform as US cuts take effect
19/9	<b>TW</b> Poya (5904 TT; Outperform; TP: NT\$ 498.00): Accelerating growth trajectory ahead
19/9	<b>TH</b> Bangkok Airways (BA TB; Neutral; TP: Bt 12.20): Less hope of earnings recovery in 2019 20F
19/9	<b>TH</b> Plan B Media (PLANB TB; Outperform; TP: Bt 10.60): New opportunities for earnings growth
18/9	<b>TW</b> Makalot (1477 TT; Outperform; NT\$ 218.00): Long-term tailwind to offset short-term headwind
18/9	<b>TW</b> Mega FHC (2886 TT; Neutral; NT\$ 28.00): NIM squeezed by US rate cut in 2Q19, to keep falling in 2H19F
18/9	<b>TW</b> VPEC (2455 TT; Not Rated): Order switch toward non-US vendors & VSCEL to spawn record-high sales in 2H19F
18/9	<b>HK</b> Dairy Sector: Key player penetrates organic IMF market in China
18/9	<b>TH</b> Energy Sector (Neutral): Refinery benefits from drone attack on Saudi's oil facilities
18/9	<b>TH</b> Krung Thai Card (KTC TB; Neutral; TP: Bt 47.00): Banks agree to slow unnecessary consumer loans
18/9	<b>TH</b> Pylon (PYLON TB; Outperform; TP: Bt 6.60): Short term headwinds, but medium term growth prospects
17/9	<b>SG</b> Keppel DC REIT (KDCREIT SP; Upgrade to OUTPERFORM; TP: S\$ 1.95): Gaining traction with twin acquisitions
17/9	<b>TW</b> Petrochemicals Sector (Underweight): Drone attack impacts crude oil & MEG supply
17/9	<b>TW</b> Largan (3008 TT; Outperform; TP: NT\$ 4,800): Solid secular growth
17/9	<b>CN/HK</b> Stock Liquidity Monitor: Weekly data – Stock incentive & shareholding changes involving major shareholders
17/9	<b>CN/HK</b> Economy: Fundamentals bottoming & recovery accelerating; A-share upturn undeterred by short-term sentiment
17/9	<b>TH</b> Bank Sector (Overweight): IFRS9 provides upside
17/9	<b>TH</b> Commodities Update: Drone attack on two Saudi oil facilities
17/9	<b>TH</b> COM 7 (COM7 TB; Outperform; TP: Bt 29.00): Glimpse of light
16/9	<b>TW</b> Eurocharm (5288 TT; Outperform; TP: NT\$ 170.00): Recreational vehicles & heavy motorcycle to shore up growth in 2020F
16/9	<b>HK</b> Wisdom Education (6068 HK; Outperform; TP: HK\$ 4.00): Key takeaways from conference call
16/9	<b>CH/HK</b> A-share Weekly: Upticks to continue, but at a slower pace
16/9	<b>TH</b> Commerce Sector (Overweight): Spurred by a pack of stimuli
16/9	<b>TH</b> C.P. All (CPALL TB; Outperform; TP: Bt 91.00): Key beneficiary from stimulus packages
16/9	<b>TH</b> Global House (GLOBAL TB; Neutral; TP: Bt 16.30): No catalyst
16/9	<b>TH</b> Home Product Center (HMPRO TB; Neutral; TP: Bt 17.40): A bit “pricey”
16/9	<b>TH</b> Siam Makro (MAKRO TB; Neutral; TP: Bt 36.25): Cost burden from overseas expansion
<i>For full reports, please contact Research Department at 6202 1190 or <a href="mailto:sgp.researchcom@kgi.com">sgp.researchcom@kgi.com</a></i>	

# Crude oil

## Dramatic week: between ice and fire

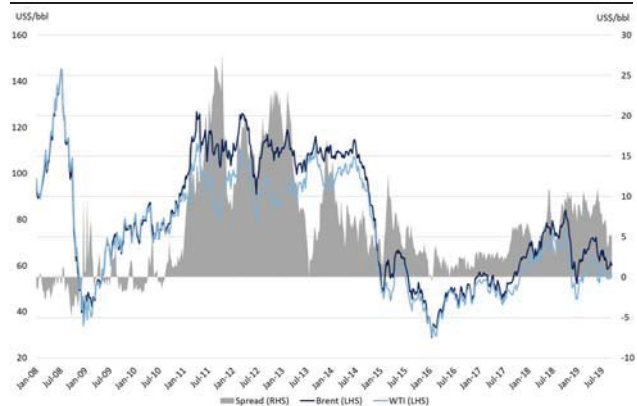
Chen Guangzhi / 65 6202 1191 / guangzhi.chen@kgi.com

- Oil prices swung sharply this week with a trading range of around US\$6/bbl or 10%
- Oil markets remain oversupplied as production cuts are offset by increasing US output
- Existing oil storages are sufficient to cover the shortfall due to the recent disruption
- We expect oil prices (Brent) to trade between US\$60/bbl and US\$70/bbl for the rest of 2019

**A black swan in the oil market.** On 14 September, Saudi Aramco, the world's biggest oil producer, reported a massive drone strike on its crude-processing facilities. Subsequently, 5.7mn bbls/d (5% of the global supply) of production capacity was disrupted. According to S&P Global Platts, 3mn bbls/d of supply is expected to be affected for at least a month. Oil prices (Brent) topped at US\$69.6/bbl (a 15.3% jump from Friday's closing price) and closed at US\$68.0/bbl (up 13% DoD) on Monday this week, recording the biggest move in history. However, oil markets reversed the next day when Saudi Arabia's energy minister said that 50% of the production decline was restored in the past two days, while 11mn bbls/d and another 1mn bbls/d of capacity were expected to resume by the end of September and November respectively. Oil prices fell 7.6% to US\$64.0/bbl on Tuesday and slightly dipped and closed at US\$63.6/bbl on Wednesday.

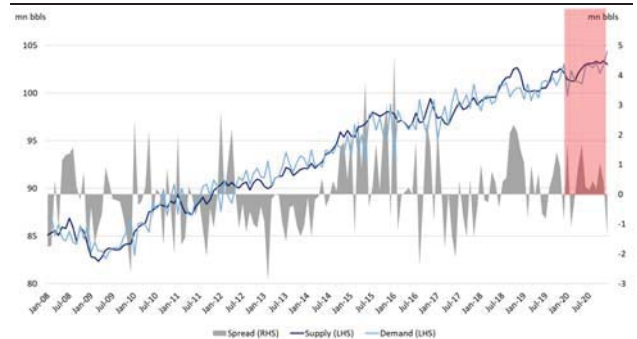
**Ample supply deters oil prices from rallying.** Ever since the oil market crashed due to the oversupply in 2014, oil prices (Brent) have yet to recover to the heydays of over US\$100/bbl. It recovered from the lows of US\$28/bbl and topped out at US\$86/bbl. Most recently, oil prices have traded between a range of between US\$50/bbl and US\$70/bbl. The main reason why oil prices have only recovered halfway to previous levels is because of the oversupply. According to the US Energy Information Administration (EIA), the global liquid fuel demand is estimated at 100.8mn bbls/d, with annual demand growth falling by 30.8% YoY to 0.9mn bbls/d in 2019 due mainly to the slowdown in the global economy. However, supply is estimated to be at 101mn bbls/d on average. Although OPEC, Russia, and other non-members have been cutting production by 1.2mn bbls/d, US production remained at a record high of an average 12.1mn bbls/d YTD. EIA forecasts the US average output to reach 12.2mn bbls/d in 2019, an increase of 1.2mn bbls/d from that in 2019. Therefore, the oil market remains oversupplied due to the offsetting increase from US production.

Figure 1: Stagnant crude oil price performance



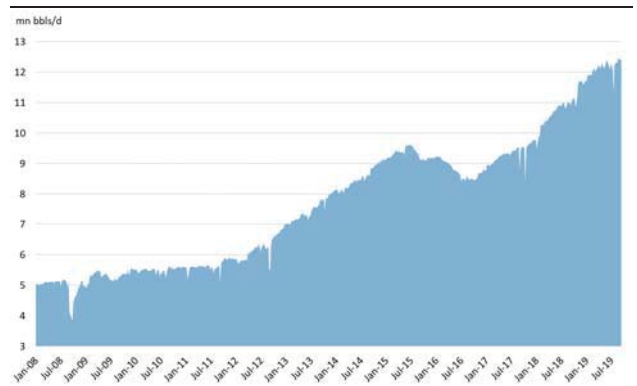
Source: Bloomberg, KGI Research

Figure 2: Excessive supply remains



Source: Bloomberg, KGI Research

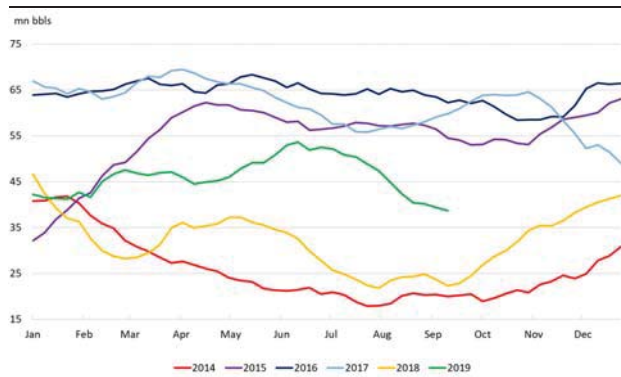
Figure 3: US oil production remains at record highs



Source: Bloomberg, KGI Research

**Oil storages could temporarily replenish the shortage during the recovery period.** Before the recent incident, US crude stockpile was at 38.7mn bbls, higher than the level during the same period in 2014 and 2018 when oil prices (WTI) were US\$69.0/bbl and US\$92.3/bbl respectively. Saudi Arabia is indicated to store more than 180mn bbls of crude and around 100mn barrels of refined-oil products. The US is reported to have 645mn bbls of strategic petroleum reserves (SPR). On the other hand, Saudi has 1.8mn bbls/d of spare capacity which is expected to be fully utilised. Hence, the spare supply is theoretically able to cover the shortfall for at least 6 to 7 months. Furthermore, US President Trump had authorised the release of the SPR to keep the markets well-supplied. Therefore, the market panic was just a flash in the pan.

**Figure 4: US Crude inventory**



Source: Bloomberg, KGI Research

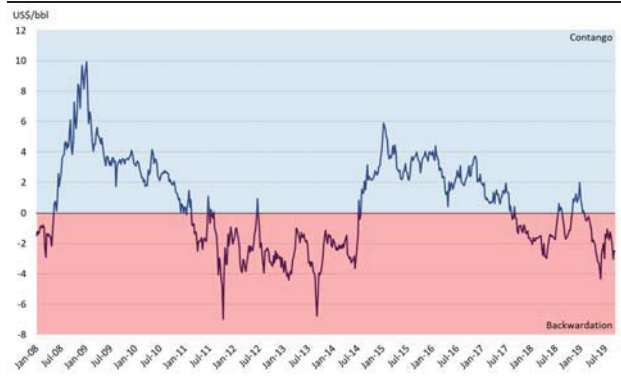
**Figure 5: OPEC total and surplus capacity**



Source: Bloomberg, KGI Research

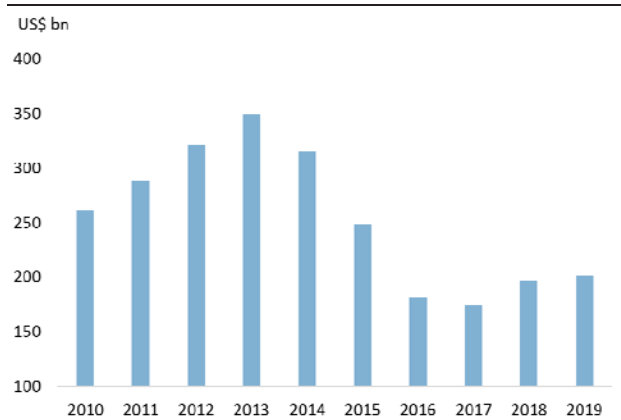
**Bearish oil prices in the near term.** The market has been keeping a bearish view on oil prices ever since it went into backwardation (expected future price < expected spot price) from the start of the year until today. Meanwhile, the global oil and gas upstream Capex is estimated to grow by 4.6% YoY to US\$497bn in 2019. Spending from oil majors is estimated to mildly grow by 2.5% YoY to US\$202bn in 2019. What this indicates to us is the view among major industry participants of a still lacklustre outlook and that oil prices could still weaken. Accordingly, drilling activities are also stagnant as the global rig count seems to be capped at 2,300 units (60% of the level in 2014). In a nutshell, we expect oil prices (Brent) to trade between US\$60/bbl and US\$70/bbl in 4Q19.

**Figure 6: Oil remains in backwardation YTD**



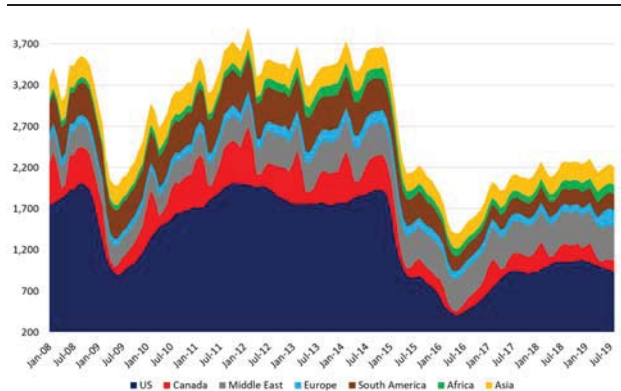
Source: Bloomberg, KGI Research

**Figure 7: Mild Capex (from oil majors) growth in 2019**



Source: Bloomberg, KGI Research

**Figure 8: Global oil and gas rig count**



Source: Bloomberg, KGI Research

# Keppel DC REIT

(KDCREIT SP)

## Gaining traction with twin acquisitions

Geraldine Wong / 65 6202 1193 / [Geraldine.wong@kqi.com](mailto:Geraldine.wong@kqi.com)

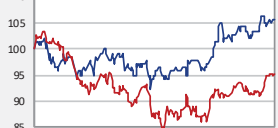
- **Twin acquisitions.** Keppel DC REIT (KDC) announced the acquisition of Keppel DC 4 (SG) and 1-Net North DC (SG) at attractive implied cap rates of c.7% and c.9% respectively.
- **Maiden master lease structure.** 1-Net North DC would be KDC's first Singapore DC under a triple-net master lease structure, with a residual tenure of 17.6 years and at a full occupancy level.
- **Upgrade to OUTPERFORM.** We expect a steep increase in DPU for FY20/FY21 to 9.0Scts / 9.5Scts (previously 7.7 Scts/8.0 Scts) following the yield accretive acquisitions.

**Twin acquisitions – expanding foothold in Singapore.** Keppel Data Centre REIT (KDC) announced the proposed acquisitions of 99% interest in Keppel DC Singapore 4 (KDC SGP 4) and full stake in 1-Net North DC. KDC SGP 4 is situated within close proximity to existing assets KDC SGP 2 and KDC SGP 3 within Tampines Industrial Park and was long-anticipated within the acquisition pipeline. The lesser known of the twins, 1-Net North DC, was previously indirectly held (51% stake) by Keppel Infrastructure Trust. Agreed valuations for the two assets were S\$384.9mn and S\$200.2mn respectively, negotiated based on a willing buyer willing seller perspective.

**Maiden master lease arrangement in SG.** 1-Net North DC would be KDC's first Singapore-based DC to be under a triple-net master-lease arrangement. The DC, which is fully-leased by a single tenant, has a residual lease tenure of 16.8 years, with an option to renew for another 7.6 years. Operation statistics will see an overall improvement with leverage remaining at a healthy level due to funding structure. Portfolio occupancy will increase from 93.2% to 94.1, while WALE will extend a further 1.1 years to 8.9 years, led by 1-Net North DC.

**Cap rates blew expectations.** The acquisition cap rates for KDC SGP 4 and 1-Net North DC stand at a decent c.7% and c.9%, surpassing expectations in current times of cap rate compressions. In addition, KDC SGP 4 has a structured two-year rental support of c.S\$8.7mn in place. IT power for the asset is fully committed at its current occupancy level of 92%. Management communicated that the additional space could be converted to office spaces for potential rental upside in the future.

**Funding structure.** The acquisition, where a quarter of the total amount will be funded by debt, will see leverage ratio improve from 31.9% to 30.3%, thus remaining one of the healthiest across all S-REITs. Debt headroom remains robust at S\$444mn, in accordance to their internal gearing limit of 40%, a sufficient drawdown should there be attractive opportunities overseas. The equity fund raising (EFR) to raise c.S\$473.8 will consist of two tranches - private placement

Outperform (Upgrade)		Performance (Absolute)	
Price as of 17 Sep 19 (SGD)	1.90	1 Month (%)	11.1
12M TP (S\$)	1.95	3 Month (%)	11.6
Previous TP (S\$)	1.71	12 Month (%)	48.7
Upside, incl div (%)	6.4%		
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	2,569		
Issued Shares (mn)	1,352		
Vol - 3M Daily avg (mn)	4.5		
Val - 3M Daily avg (\$mn)	7.8		
Free Float (%)	74.51		
Major Shareholders		Previous Recommendations	
Keppel Corp Ltd	25.4%	17-Jul-19	N S\$1.71
Sumitomo Mitsui	4.8%	18-Apr-19	OP S\$1.62
TMB Asset Management	2.6%	5-Apr-19	OP S\$1.62

Financials & Key Operating Statistics					
YE Dec SGD mn	2017	2018	2019F	2020F	2021F
Gross revenue	139.1	175.5	200.0	257.7	266.3
Net property income	125.1	157.7	180.0	232.0	239.7
Distributable income	82.3	96.1	107.6	147.1	154.3
DPS (SGD cents)	7.1	7.3	6.6	9.0	9.5
DPS growth (%)	16.0	2.8	(9.8)	36.7	4.9
Div Yield (%)	5.0	5.4	3.7	5.0	5.3
P/NAV (x)	1.0	1.1	1.2	1.2	1.2
Price / Book (x)	1.5	1.3	1.5	1.5	1.5
NPI Margin (%)	90.0	89.8	90.0	90.0	90.0
Net Margin (%)	50.5	83.2	61.7	64.0	64.6
Gearing (%)	31.0	29.9	30.4	29.8	29.4
ROE (%)	6.4	10.1	6.4	8.4	8.6

Source: Company Data, KGI Research

\*DPS for FY19 takes into account enlarged units base after equity fund raising

to raise c. S\$233mn and preferential offering to raise c.S\$241mn.

**Higher liquidity alongside recent benchmark inclusion.** KDC announced its inclusion within the FTSE EPRA Nareit Global Developed Index on 11 Sep, and will start taking effect on 23 Sep. The increased stock visibility will be further enhanced as another c.278mn units will be issued across both EFR tranches, a step up to the current 1.35bn shares currently trading in the market. We anticipate strong demand for KDC's preferential offering scheduled when market opens on the 27<sup>th</sup> Sep 2019, with issuance at the higher end of the indicative price range of S\$1.67 - S\$1.71.

### Valuation & Action:

**Upgrade to OUTPERFORM with TP of S\$1.95.** We increase our TP from S\$1.71 to S\$1.95, factoring incremental rents starting from 1Q20 following the completion of acquisition by 4Q19. The twin acquisitions will deliver yield accretion in the range of 9.4% - 12.4%, with tax transparency supporting the higher end of the spectrum. Our DPU for FY20/FY21 increased to 9.0Scts / 9.5Scts (previously 7.7 Scts/8.0 Scts) calculated on the enlarged units base.

### Risks:

Confirmation of tax transparency for KDC SGP4 to take place in 6-9 months' time.

## Transactions Highlights

## Strengthening Foothold in Singapore with DPU-accretive Acquisitions

- Agreed values for KDC SGP 4 and 1-Net North DC are supported by independent valuations
- Proposed acquisitions to be funded by a combination of (i) private placement, (ii) preferential offering and (iii) debt
- Transactions expected to be completed in 4Q 2019



#### 99% Interest in Keppel DC Singapore 4 (KDC SGP 4)

- Five-storey carrier-neutral and purpose-built colocation facility completed in 2017
- Occupancy rate of 92.0% with IT power fully-committed
- Two-year rental support of approx. \$8.7m
- Agreed value of \$384.9m is below Cushman & Wakefield's and Savills' valuations of approx. \$385.1m (including rental support)



#### 100% Interest in 1-Net North Data Centre (1-Net North DC)

- Five-storey purpose-built facility completed in 2016
- Triple-net master lease – No capital and operating expense obligations
- Agreed value of \$200.2m is below Knight Frank's valuation of \$200.5m and Edmund Tie's \$201.5m



- ✓ DPU- accretive
- ✓ Grow AUM



- ✓ Greater income resilience with enlarged portfolio



- ✓ Stronger platform and better access to debt and equity markets for growth



#### Pro forma DPU

from 7.32 cents to

**8.01 cents<sup>1</sup>**

for FY2018



#### Assets under Management

from \$1.98b to

**\$2.58b**



#### Portfolio Occupancy

from 93.2% to

**94.1%<sup>2</sup>**



#### Portfolio WALE

from 7.8 years to

**8.9 years<sup>2</sup>**

by leased area



#### Aggregate Leverage

from 31.9%

**30.3%<sup>3</sup>**

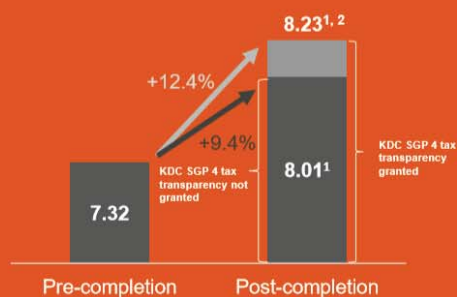
post-completion



- Opportunity for Unitholders to participate in Keppel DC REIT's continued growth through the preferential offering

### Pro Forma DPU<sup>1</sup> (cents)

Proposed Acquisitions are expected to be DPU-accretive



## 1 DPU-accretive Acquisitions

- Accretion without KDC SGP 4 tax transparency: 9.4%
- Accretion with KDC SGP 4 tax transparency: 12.4%

Effects of the Proposed Acquisitions For pro forma FY 2018		Actual FY2018	With KDC SGP 4	With 1-Net North DC	With KDC SGP 4 and 1-Net North DC
KDC SGP 4 Tax Transparency not Granted	DPU (cents)	7.32	7.62	7.76	8.01
KDC SGP 4 Tax Transparency not Granted	Accretion (%)	-	4.1%	6.0%	9.4%
KDC SGP 4 Tax Transparency Granted <sup>2</sup>	DPU (cents)	7.32	7.87	7.76	8.23
KDC SGP 4 Tax Transparency Granted <sup>2</sup>	Accretion (%)	-	7.5%	6.0%	12.4%

<sup>1</sup> Assuming the Proposed Acquisitions are fully funded via a combination of private placement issuance, preferential offering issuance and external debt and completed on 1 Jan 2018

<sup>2</sup> An application to Inland Revenue Authority of Singapore (IRAS) to seek a ruling that the income from KDC SGP 4 Target Entity would be tax transparent will be submitted.

Source: Company Data, KGI Research



# Manulife US REIT

## (MUST SP/MANU.SI)

### California next on the menu; Benchmark inclusion insight

Geraldine Wong / 65 6202 1193 / [Geraldine.wong@kqi.com](mailto:Geraldine.wong@kqi.com)

- **First foray into California.** Manulife US REIT (MUST) announced the acquisition of 400 Capitol building in Sacramento (California) for US\$198.8mn, at an implied cap rate of 7.2%.
- **Benchmark inclusion threshold met.** MUST could see inclusion within the FTSE EPRA Nareit Developed Asia Index by Dec 19.
- **Maintain OUTPERFORM.** DPU will likely remain flattish alongside an enlarged units base at 6.3/6.3 US cts for FY20/FY21 (previously 6.5/6.5 US cts); catalyst remains the near-term benchmark inclusion.

**First foray into California.** MUST announced the proposed acquisition of 400 Capitol (Sacramento, California) at an agreed valuation of US\$198.8mn, a marginal discount to the asset's latest market value of US\$200.5mn. The 27 year old building sits as the tallest commercial asset in the prime CBD area of Sacramento, and consist of 29-storeys. The top 10 tenants leased c.65.5% of total leasable area (500,662 sqft), and constitute firms within the legal, finance and co-working subsectors. Since 2016, 400 Capitol had undergone more than US\$12mn worth of asset enhancements involving the lobby area, restrooms and corridors. The property would also come with a tenant-funded, 5-star amenity base which includes a fitness centre, heated swimming pool, conference rooms amongst other facilities.

**A tight market in Sacramento.** Within the Sacramento submarket, supply remains tight with just two government-owned office buildings known to be within the near-term pipeline. Historical asking rent grew at a CAGR of 4.8% since 2014 to US\$40/sqft this year, with an average vacancy of 6.3% as opposed to 11.3% within other markets. This is consistent with higher construction costs driven by rising labour wages and price volatility in building materials such as steel and cement. Replacement cost for a comparable asset would be in the range of US\$700-US\$800/sqft, a significant premium to MUST's purchase price of US\$397/sqft.

**Funding structure.** The acquisition would be partly funded by debt (c.31%) and equity (c.69%). MUST will draw down from the loan facilities of US\$64mn and raise US\$142.1mn through an equity fund raising (EFR) exercise comprised of two tranches – private placement of US\$65mn and preferential offering to raise another US\$77.1mn. We anticipate the private placement tranche to be raised at the higher range of their indicated issue price of 84.9 US cts - 87.6 US cts and a similarly strong response for the preferential offering to be issued between 83.3 US cts - 86 US cts which is scheduled to open on 2 Oct.

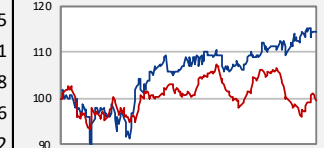
#### Outperform (Maintain)

Price as of 18 Sep 19 (USD)	0.91	<b>Performance (Absolute)</b>	
12M TP (USD)	1.01	1 Month (%)	1.6
Previous TP (USD)	0.98	3 Month (%)	5.0
Upside, incl div (%)	17.9%	12 Month (%)	22.8

#### Trading data

Mkt Cap (USD mn)	1,275
Issued Shares (mn)	1,401
Vol - 3M Daily avg (mn)	1.8
Val - 3M Daily avg (USD mn)	1.6
Free Float (%)	16.2

#### Perf. vs STI Index (Red)



#### Major Shareholders

Manulife Financial Corp	6.2%
Prudential PLC	5.5%
DBS Group Holdings	3.0%

#### Previous Recommendations

15-Aug-19	OP US\$0.98
29-Apr-19	OP US\$0.97
15-Feb-19	OP US\$0.95

#### Financials & Key Operating Statistics

YE Dec USD mn	2017	2018	2019F	2020F	2021F
Gross revenue	92.0	144.6	175.6	204.1	204.5
Net property income	58.4	90.7	112.4	130.6	130.9
Distributable income	46.7	71.0	88.7	100.6	100.9
DPU (US cents)	5.8	6.1	5.7	6.3	6.3
DPU growth (%)	64.5	3.6	(6.3)	11.1	0.3
Div Yield (%)	6.5	7.7	6.2	6.9	6.9
NAV (US cents)	82.0	83.4	0.8	0.8	85.4
Price / Book (x)	1.1	0.9	1.1	1.1	1.1
NPI Margin (%)	63.4	64.0	64.0	64.0	64.0
Net Margin (%)	63.0	44.7	28.1	37.3	37.3
Gearing (%)	34.9	38.4	37.7	37.7	37.7
ROE (%)	6.8	6.1	3.8	5.7	5.7

Source: Company Data, KGI Research

\* DPS for FY19 takes into account enlarged units base after equity fund raising

**Operating statistics.** With 400 Capitol's occupancy of 94.9% and WALE of 5.9 years, we expect a slight dip in occupancy next quarter to 96.9% (2Q19: 97.2%) and WALE to maintain at c.6.2 years. The enlarged portfolio will see concentration risk from the largest asset by % NPI (Michelson) reduced from 18.9% to 17.1%.

**Benchmark inclusion in Dec 19.** We anticipate c.164mn new units to be issued after this round of EFR, a c.12% increase from the total number of units in issue of 1.4bn (18 Sep). Management communicated that they expect free float market cap to increase from US\$1.15bn to US\$1.3bn after the completion of this acquisition. This should comfortably meet the free-float market cap requirement of US\$1.22bn to be included in the FTSE EPRA Nareit Developed Asia Index in the next round of review coming Dec 19.

#### Valuation & Action:

**Maintain OUTPERFORM with TP of US\$1.01.** We increased our TP from US\$0.98 to US\$1.01, in part due to a rental uplift from 400 Capitol beginning from 2020 and a reduction in our risk free rate by 25 bps to realign with the current dovish interest rate environment.

#### Risks:

Finalisation of US tax regulations (Section 267A) at year end; foreign exchange risk

**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 (%)
<b>FINANCIALS</b>								
DBS SP	DBS	25.15	64,249	0.6%	11.0%	(1.6%)	4.8%	4.9%
OCBC SP	OCBC	10.95	47,278	0.4%	1.4%	(1.4%)	#VALUE!	4.6%
UOB SP	UOB	25.76	42,974	0.2%	10.0%	(2.5%)	#VALUE!	4.8%
SGX SP	SGX	8.40	8,996	(1.2%)	19.8%	(1.6%)	3.8%	3.8%
<b>PROPERTIES</b>								
HKL SP	Hongkong Land USD	5.72	18,505	0.4%	(6.3%)	(0.5%)	#VALUE!	4.0%
CAPL SP	CapitaLand	3.53	17,782	0.6%	17.4%	(2.8%)	#VALUE!	3.5%
CT SP	CapitaLand Mall Trust	2.61	9,627	(0.4%)	18.9%	(0.4%)	4.7%	4.6%
AREIT SP	Ascendas REIT	3.13	9,743	0.6%	25.1%	(0.3%)	#VALUE!	5.1%
CIT SP	City Development	9.87	8,951	0.4%	24.2%	0.3%	#VALUE!	2.0%
CCT SP	CapitaLand Comm Trust	2.12	8,173	(0.5%)	26.9%	1.0%	#VALUE!	4.2%
UOL SP	UOL	7.47	6,300	1.2%	23.5%	(1.2%)	#VALUE!	2.4%
<b>TELECOMMUNICATIONS</b>								
ST SP	SingTel	3.17	51,763	(0.3%)	11.7%	(1.2%)	#VALUE!	5.7%
<b>CONSUMER SERVICES AND GOODS</b>								
JM SP	Jardine Matheson USD	55.26	56,027	(0.1%)	(18.4%)	(1.6%)	#VALUE!	3.1%
JS SP	Jardine Strategic Holdings	31.68	48,268	0.6%	(12.9%)	(2.8%)	1.1%	1.1%
DFI SP	Dairy Farm International	6.65	12,369	(4.0%)	(24.4%)	(5.4%)	3.1%	3.1%
THBEV SP	ThaiBev	0.90	22,477	(1.1%)	50.0%	(1.6%)	#VALUE!	2.5%
JCNC SP	Jardine C&C	30.87	12,201	0.2%	(9.5%)	(4.0%)	#VALUE!	4.2%
GENS SP	Genting Singapore	0.91	10,912	0.0%	(3.7%)	0.6%	#VALUE!	4.1%
VMS SP	Venture Corp	15.76	4,545	0.0%	18.0%	(2.1%)	#VALUE!	4.6%
SPH SP	SPH	2.11	3,365	1.4%	(8.2%)	2.9%	#VALUE!	5.8%
<b>TRANSPORT</b>								
SIA SP	Singapore Airlines	9.24	10,951	1.5%	0.4%	(0.1%)	#VALUE!	3.7%
CD SP	ComfortDelGro	2.44	5,284	(0.4%)	18.3%	(1.6%)	#VALUE!	4.5%
<b>COMMODITIES</b>								
WIL SP	Wilmar	3.74	23,691	(1.6%)	23.2%	(3.1%)	#VALUE!	2.8%
GGR SP	Golden Agri	0.25	3,120	0.0%	2.0%	(10.9%)	#VALUE!	2.2%
<b>OFFSHORE &amp; MARINE/INDUSTRIALS</b>								
KEP SP	Keppel Corp	6.08	11,043	(0.3%)	6.4%	(2.3%)	#VALUE!	3.8%
STE SP	ST Engineering	3.89	12,132	(0.8%)	15.9%	(0.8%)	#VALUE!	4.0%
SATS SP	SATS	4.87	5,446	1.9%	7.3%	0.0%	#VALUE!	3.8%
YZJSGD SP	Yangzijiang SGD	1.00	3,922	(4.8%)	(17.2%)	(10.7%)	#VALUE!	4.7%
SCI SP	Sembcorp Industries	2.18	3,896	1.4%	(12.8%)	(2.2%)	#VALUE!	2.5%
HPHT SP	HPH Trust USD	0.17	2,012	(3.4%)	(25.8%)	5.0%	#VALUE!	9.5%

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

**STI Reserve List (by market cap)**

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	1.93	5,400	0.0%	12.8%	(0.5%)	5.4%	5.0%
MCT SP	Mapletree Commercial Trust	2.29	6,631	0.9%	44.0%	4.1%	#VALUE!	4.1%
MLT SP	Mapletree Logistics Trust	1.63	5,933	1.2%	34.8%	2.5%	5.0%	5.0%
KREIT SP	Keppel REIT	1.25	4,246	0.0%	13.5%	0.0%	4.4%	4.6%
MIINT SP	Maple Industries Trust	2.49	5,039	2.0%	36.2%	6.9%	5.1%	5.0%

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



**Appendix 1: Corporate Action**

## Latest Dividend Entitlements Announcement

Company	Results Ann Date	Period	DPS	Ex-Date	Book Close	Payable	Share Price 20 Sep 19	Yield (%)
Keppel DC REIT			SGD 0.01810	<b>23-Sep-19</b>	24-Sep-19	27-Nov-19	SGD 2.110	3.4
Shangri-La Asia	21-Aug-19	1H19	<b>HKD</b> 0.0800	<b>23-Sep-19</b>	24-Sep-19	3-Oct-19	<b>HKD</b> 8.290	2.7
Mapletree Industrial Trust			SGD 0.029300	<b>24-Sep-19</b>	25-Sep-19	21-Oct-19	SGD 2.490	4.9
APAC Realty	5-Aug-19	2Q19	SGD 0.00750	<b>28-Sep-19</b>	29-Aug-19	9-Sep-19	SGD 0.505	6.4
HC Surgical Specialists Ltd	25-Jul-19	FY19	SGD 0.01200	<b>3-Oct-19</b>	4-Oct-19	16-Oct-19	SGD 0.560	3.6
Lian Beng Group Ltd	30-Jul-19	FY19	SGD 0.01250	<b>3-Oct-19</b>	4-Oct-19	14-Oct-19	SGD 0.500	4.5
UMS Holdings	14-Aug-19	2Q19	SGD 0.005000	<b>9-Oct-19</b>	10-Oct-19	25-Oct-19	SGD 0.620	6.5
STI Singapore Exchange	31-Jul-19	FY19	SGD 0.0750	<b>10-Oct-19</b>	11-Oct-19	18-Oct-19	SGD 8.400	4.5
United Overseas Australia	29-Aug-19	1H19	<b>AUD</b> 0.0050	<b>14-Oct-19</b>	15-Oct-19	6-Nov-19	SGD 0.705	3.4
UG Healthcare Corp Ltd	26-Aug-19	FY19	SGD 0.002590	<b>30-Oct-19</b>	31-Oct-19	17-Dec-19	SGD 0.178	1.3
GuocoLand	26-Aug-19	FY19	SGD 0.07000	<b>31-Oct-19</b>	1-Nov-19	21-Nov-19	SGD 2.050	3.4
Karin Technology Hldgs	28-Aug-19	FY19	<b>HKD</b> 0.0780	<b>31-Oct-19</b>	1-Nov-19	21-Nov-19	SGD 0.330	9.3
British & Malayan Holdings	26-Aug-19	FY19	SGD 0.02700	<b>1-Nov-19</b>	4-Nov-19	22-Nov-19	-	1.2
Noel Gifts Int'l	27-Aug-19	FY19	SGD 0.00100	<b>1-Nov-19</b>	5-Nov-19	14-Nov-19	SGD 0.210	4.8
Noel Gifts Int'l - Special	27-Aug-19	FY19	SGD 0.01900	<b>1-Nov-19</b>	5-Nov-19	14-Nov-19	SGD 0.210	4.8
GL	26-Aug-19	FY19	SGD 0.02200	<b>4-Nov-19</b>	5-Nov-19	26-Nov-19	SGD 0.785	2.8
Silverlake Axis	26-Aug-19	FY19	SGD 0.0070	<b>4-Nov-19</b>	5-Nov-19	15-Nov-19	SGD 0.460	4.1
Spindex Industries	26-Aug-19	FY19	SGD 0.0330	<b>4-Nov-19</b>	5-Nov-19	20-Nov-19	SGD 0.990	3.0
Micro-Mechanics Hldgs	29-Aug-19	FY19	SGD 0.0500	<b>6-Nov-19</b>	7-Nov-19	19-Nov-19	SGD 1.680	6.0
Micro-Mechanics Hldgs - Special	29-Aug-19	FY19	SGD 0.0100	<b>6-Nov-19</b>	7-Nov-19	19-Nov-19	SGD 1.680	6.0
AVI-Tech Electronics	28-Aug-19	FY19	SGD 0.01000	<b>13-Nov-19</b>	14-Nov-19	29-Nov-19	SGD 0.340	6.2
AVI-Tech Electronics - Special	28-Aug-19	FY19	SGD 0.00500	<b>13-Nov-19</b>	14-Nov-19	29-Nov-19	SGD 0.340	6.2
A-Sonic Aerospace Ltd	26-Feb-19	FY18	SGD 0.01000	<b>28-Nov-19</b>	29-Nov-19	12-Dec-19	SGD 0.205	-

Source: SGX Announcement / Bloomberg

## Latest Rights Issue Announcement

Company	Particulars	Ex-Date	Book Close	Rights Trading Period	
				From	To
Annaik	1 Rts Share @ S\$0.065 for each Rts share (exercise price S\$ 0.200) for every 4 existing ord shares held with 1 free detachable and transferable warrantS	16-Sep-19	17-Sep-19	<b>20-Sep-19</b>	<b>30-Sep-19</b>
Chip Eng Seng	1 Rights Share @ S\$0.63 for each Rights Share for every 4 existing ord share	20-Sep-19	23-Sep-19	<b>26-Sep-19</b>	<b>4-Oct-19</b>

Source: SGX Announcement

Annaik: Expected date of commencement of trading of warrants: 9.00 a.m., Tuesday, 15 October 2019

## Latest Listing Issue Announcement

Company	Offer Price	Closing Date	Offeror
PS Grp Hldgs Ltd	SGD 0.118 Cash	5.30 p.m. on 22 Oct 2019	PS Investment Pte. Ltd.
Star Pharmaceutical	SGD 0.45 Cash	5.30 p.m. on 7 Oct 2019	Star Pharmaceutical Holdings Limited

Source: SGX Announcement

**Appendix 2: Financial Calendar**

Monday	Tuesday	Wednesday	Thursday	Friday
<b>23-Sep</b> SG (Aug 2019) CPI <i>For General Households</i>	<b>24-Sep</b>	<b>25-Sep</b>	<b>26-Sep</b> SG (Aug 2019) Index of Industrial Production	<b>27-Sep</b>
<b>30-Sep</b> SG 2Q19 Int'l Investment Position <i>(Not later than 30 Sep)</i>	<b>1-Oct-2019</b>	<b>2-Oct</b>	<b>3-Oct</b>	<b>4-Oct</b>
<b>7-Oct</b>	<b>8-Oct</b>	<b>9-Oct</b>	<b>10-Oct</b> *Q4 SPH REIT	<b>11-Oct</b>
<b>14-Oct</b> SG 3Q19 Advance GDP Estimates <i>(Not later than 14 Oct)</i>	<b>15-Oct</b>	<b>16-Oct</b> *Q3 Qian Hu Corp	<b>17-Oct</b>	<b>18-Oct</b>
<b>21-Oct</b>	<b>22-Oct</b>	<b>23-Oct</b> SG (Sep 2019) CPI <i>For General Households</i>	<b>24-Oct</b> SG (Q3 2019) Industrial Properties *Q1 Spore Exchange	<b>25-Oct</b> SG 3Q19 Private Residential, Retail and Office Properties SG (Q3 2019) Unemployment Rate & Employment SG (Sep 2019) Index of Industrial Production *Q3 SP Corp *Q4 Miyoshi

\* Tentative

Source: Bloomberg

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