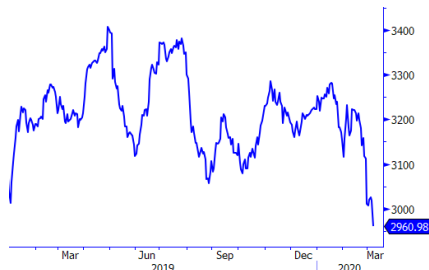


Market Indicators

	4-Mar	5-Mar	6-Mar
Mkt. T/O (S\$ mil)	1,911.2	2,045.2	1,609.1
Stock Advances	212	237	135
Stock Declines	241	214	367

Major Indices

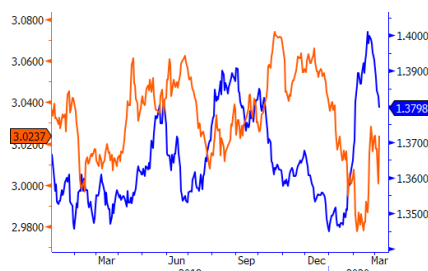
	4-Mar	5-Mar	6-Mar
DJ Ind Avg	27,090.9	26,121.3	25,864.8
S & P 500	3,130.1	3,023.9	2,972.4
Nasdaq Comp	9,018.1	8,738.6	8,575.6
Hang Seng	26,222.1	26,767.9	26,146.7

STI Index 2,960.98 (-1.90%)


Source: Bloomberg

Commodities

	Current % Chge from Price	Close
Gold (SPOT) US\$ / oz	1,700.07	1.57%
Oil (NYMEX CWT11) US\$ / bbl	32.65	-20.91%
Baltic Dry Index	617	3.01%

Exchange Rates


USD : SGD 1.3769 / MYR : SGD 3.0502

Source: Bloomberg

Interest Rates

3-mth Sibar	1.462%
SGS (10 yr)	1.187%

KGI Securities Research Team
KGI Market Ideas
KGI Market Strategy: Perfect Storm – Encountering black swans and grey rhinos (PART ONE)

Financial markets have finally realised the possibility of a much larger-than-expected impact of COVID-19 – the likelihood of a global recession will only increase in the coming weeks. With China's economy significantly disrupted in 1Q20, the coronavirus outbreak in the US has the potential to derail US economic growth in 2Q20.

Thus, with a potential synchronised slowdown in two of the world's largest economies, we believe risk-assets may face more downward pressure in March. Occasionally, there may be bouts of counter-trend rallies on news of fiscal and monetary stimulus.

We maintain our recommendations to be cautious and not chase rallies. Remain diversified with enough cash to deploy when opportunities arise. Precious metals remain one of our favourite asset class. We reiterate to buy gold and silver, with a target price of US\$1,700/oz and US\$25/oz, respectively (under review as we have not factored in the surprise rate cuts and potential for more cuts at the next FOMC meeting on 18 March 2020).

Our investment thesis over the next two months remains unchanged, as highlighted in the Market Strategy reports published below:

- 1) KGI Market Strategy – 22 Jan 2020
[Taking some risk off before the holidays](#) (Chinese version [here](#))
- 2) KGI Market Strategy – 7 Feb 2020
[Two different worlds: Part One](#) (Chinese version [here](#))
- 3) KGI Market Strategy – 14 Feb 2020
[Two different worlds: Part Two](#) (Chinese version [here](#))
- 4) KGI Market Strategy – 21 Feb 2020
[Collateral damage: Japan and South Korea](#) (Chinese version [here](#))

KGI Trading Ideas – Is the ETF bubble finally going to burst?

If the massive capital inflows into index funds were the key driver of stock and bond performance over the past decade, the reverse will exacerbate the current sell-off. Bloomberg data that tracks ETF flows show that there is still significant room for more ETF outflows from equities.

KGI Market Strategy, KGI Trading Ideas, Monthly Recap and Results Update

- **KGI Market Strategy:** Perfect storm: Encountering black swans and grey rhinos (Part One) - Page 3
- **KGI Trading Ideas:** Is the ETF bubble finally going to burst? - Page 6
- **Our February Flashback:** KGI Securities February 2020 Monthly Recap - Page 7
- **Sunpower Group (SPWG SP; Maintain OUTPERFORM, TP: S\$ 0.91):** Expecting a quick China recovery in 2Q20 - Page 12

Recent In depth Regional Reports

6/3	HK Kingsoft (3888 HK; Neutral; HK\$ 29.90): WPS Office results beat; near-term positives priced in
6/3	TH Economic: February headline CPI increased +0.74% YoY
6/3	TH BCPG Pcl. (BCPG TB; Outperform; TP: Bt 22.00): Laos Battery of BCPG
6/3	TH Chularat Hospital (CHG TB; Outperform; TP: Bt 3.10): Less revenue contribution from international patients
6/3	TH Minor International (MINT TB; Under Review; TP: Under Review): Key takeaways from the analyst meeting
5/3	SG Our February Flashback: KGI Securities February 2020 Monthly Recap
5/3	TW Industrial Automation: Clear signs of fundamental recovery
5/3	TW Argosy (3217 TT; Not Rated): Server & smartphone applications to boost growth
5/3	TW Taiwan Mobile (3045 TT; Neutral; TP: NT\$ 101.00): Earnings to keep falling in 2020F on 5G costs
5/3	TW PCL Technologies (4977 TT; Outperform; NT\$ 174.00): To benefit from Broadcom business & 5G build-out in Japan
5/3	CN/HK Retail Sector: Channel checks in Shanghai under COVID-19
5/3	TH Non-Bank Sector (Underweight): Too good of asset quality
5/3	TH Bumrungrad Hospital (BH TB; Neutral; TP: Bt 140.00): Looks worse in 2020
4/3	SG Sunpower Group (SPWG SP; Maintain OUTPERFORM, TP: S\$ 0.91): Expecting a quick China recovery in 2Q20
4/3	US Economics: US stocks to consolidate at low levels before mid-April; moderate investors should overweight then
4/3	TW Passive Component Sector: 5G smartphone & automotive applications to drive MLCC demand from 2H20
4/3	TW Petrochemicals Sector (Underweight): Factors positive to inventory cycle bottoming are gradually becoming a reality
4/3	TW Chilisun (2456 TT; Outperform; NT\$ 128.00): Well-positioned for earnings growth going forward
4/3	TW Dynapack (3211 TT; Not Rated): Margin improves on product mix; 2020F outlook conservative on COVID-19 impact
4/3	TW Medigen Vaccine (6547 TT; Not Rated): COVID-19 vaccine a potential sales catalyst; optimistic on development progress of other products
4/3	TW USI (1304 TT; Outperform; NT\$ 16.00): EVA upcycle on the horizon
4/3	TW Yageo (2327 TT; Outperform; NT\$ 570.00): Sharp earnings recovery in 2020-21F
4/3	HK Dairy Sector: Update about COVID-19 impact on dairy sector
4/3	TH B.Grimm Power (BGRIM TB; Neutral; TP: Bt 51.50): Resilient against headwinds
4/3	TH Home Product Center (HMPRO TB; Neutral; TP: Bt 15.40): Hold on
4/3	TH Siam Global House (GLOBAL TB; Neutral; TP: Bt 15.10): Keep waiting
4/3	TH Thai Airways International (THAI TB; Underperform; TP: Bt 4.70): Negative outlook for 1H20
4/3	TH Zen Corporation Group (ZEN TB; Outperform; TP: Bt 12.00): Only time will tell
3/3	TW Hon Hai (2317 TT; Outperform; TP: NT\$ 105.00): Near-term margin pressure under COVID-19 outbreak
3/3	TW Taishin FHC (2887 TT; Neutral; TP: NT\$ 15.00): COVID-19 impact now limited; neutral outlook for 2020
3/3	HK Personal Care: Updates amid the COVID-19 outbreak
3/3	CN/HK Stock Liquidity Monitor: Weekly data – Stock incentive & shareholding changes involving major shareholders
3/3	TH Commodities Update: COVID-19 spreading outside China
3/3	TH Bangkok Chain Hospital (BCH TB; Outperform; TP: Bt 22.30): Less positive for 2020
3/3	TH Plan B Media (PLANB TB; Outperform; TP: Bt 7.15): Growth is still expected despite rough road ahead in 2020
3/3	TH Srisawad Corporation (SAWAD TB; Underperform; TP: Bt 61.00): Less bullish on growth
3/3	TH True Corporation (TRUE TB; Underperform; TP: Bt 3.50): Weak financial status expected to continue in 2020
2/3	SG AEM Holdings (AEM SP; OUTPERFORM; TP: S\$ 2.60): Roaring into the Twenties
2/3	SG EC World REIT (ECWREIT SP; OUTPERFORM; S\$ 0.82): Somewhat immune, but some sniffles expected
2/3	USA Economics: Aggressive investors should overweight now & moderate investors should significantly overweight after mid-April
2/3	USA US Technology: Expect better demand visibility heading into April
2/3	TW Cement Sector: Price cuts underway
2/3	TW Merry (2439 TT; Not Rated): 4Q19 EPS missed; low 1Q20 visibility on COVID-19 impact

For full reports, please contact Research Department at 6202 1190 or sgp.researchcom@kgi.com

Perfect storm: Encountering black swans and grey rhinos (Part One)

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- **Where are we now?** At the moment, we are at the intersection of a black swan (extremely rare but severe impact) and grey rhinos (highly probable, high impact yet neglected).
- Financial markets have finally realised the possibility of a much larger-than-expected impact of COVID-19 – the likelihood of a global recession will only increase in the coming weeks. With China's economy significantly disrupted in 1Q20, the coronavirus outbreak in the US has the potential to derail US economic growth in 2Q20.
- Thus, with a potential synchronised slowdown in two of the world's largest economies, we believe risk-assets may face more downward pressure in March. Occasionally, there may be bouts of counter-trend rallies on news of fiscal and monetary stimulus.
- We maintain our recommendations to be cautious and not chase rallies. Remain diversified with enough cash to deploy when opportunities arise. Precious metals remain one of our favourite asset class. We reiterate to buy gold and silver, with a target price of US\$1,700/oz and US\$25/oz, respectively (under review as we have not factored in the surprise rate cuts and potential for more cuts at the next FOMC meeting on 18 March 2020).

Black swan. COVID-19 is deemed a black swan event as it was completely unforeseen, and financial markets had initially shrugged off its potential economic impact. It has been more than two months since the COVID-19 outbreak, yet the number of infected cases continues to surge globally. Although China seems to have contained the spread outside Hubei province, countries such as South Korea, Japan, Iran, and Italy have yet to control the outbreak; the likelihood of COVID-19 becoming a global pandemic is increasing. And just as in 2008's global financial crisis, the consequences will most likely catch people off-guard due to the abrupt downturn of the economy.

Naughty rats! The last time a black swan occurred was in 2008, which coincidentally was also the year of the rat in the Chinese calendar. However, there are fundamental differences in how the 2008 and 2020 events have played out and are currently playing out. The crisis in 2008 was due to over-leveraging which resulted in a liquidity crunch that brought down the global financial system. This subsequently had an impact on the economy and businesses. The reverse is now happening with the COVID-19 outbreak, where a disruption to businesses and supply chains due to the implementation of far-reaching quarantine measures has resulted in trembling financial markets.

Vaccine for the global economy. With more macro data being released, the global economy in 1Q20, especially the economic performances of countries near the epicentre of the outbreak such as China, South Korea, and Japan, will (almost certainly) be underwhelming. Although an effective treatment or vaccine for COVID-19 have not yet been developed, the treatment for an economic downturn has already been established long before. Central banks are now implementing the traditional methods to bring relief to the economy, which mainly include interest rate cuts and liquidity injections. The Chinese government has implemented a series of tax cuts, and expanding public spending on infrastructure projects seems to be simply a matter of time. However, we would like to point out a few grey rhinos that we see.

What are these raging grey rhinos we speak of? Grey rhinos, as described in Michele Wucker's "The Gray Rhino", describe events that are not complete surprises, but occur amid a series of visible warning signals. The global economy prior to the COVID-19 outbreak was widely expected to recover against the backdrop of the trade war 'truce' between China and the US. Earlier in the year, the IMF had projected global growth of 3.4% with the key assumption that China and the US collaborate to resolve the trade dispute, helped as well by the reduction of other uncertainties such as Brexit.

There is still a significant amount of uncertainty of how the current outbreak will play out or when it will eventually taper off, but a key effect is almost certain: this event is a potential catalyst for further de-coupling between China and the US. With the US presidential elections heating up, President Trump may use the opportunity to direct domestic concerns over the slowing economy and the handling of the virus outbreak in the US, towards China.

On the other hand, China seems to be faced with problems both internally and externally. We have been reiterating that China is facing stagflation headwinds, and the authorities are now facing a dilemma of whether to use credit stimulus to boost the economy. Since the global financial crisis in 2008, China significantly increased its debt-to-GDP levels. China's economy over the last decade has been characterised by infrastructure and real estate developments. However, the negative consequences have emerged over the past two years. Provincial government deficits have **skyrocketed**, together with the rise in household debt (mainly in house mortgage).

The increasing indebtedness in China has put a cap on the authorities' ability for huge credit stimulus to revive growth. Furthermore, there are rising public concerns on rising food prices (adding on to the already unaffordable property prices), which also limits the willingness for more credit expansion. Another point to note is the nationalisation of China's economy since 2014, where a larger share of bank loans and subsidies are tilted towards state-owned enterprises (SOE), whose return on equity (ROE) are seldom insufficient to cover their cost of capital. We have already seen a few top SOEs such as Tewoo and Founder default on multibillion RMB worth of bonds.

Here, we highlight several grey rhinos that investors should pay attention to:

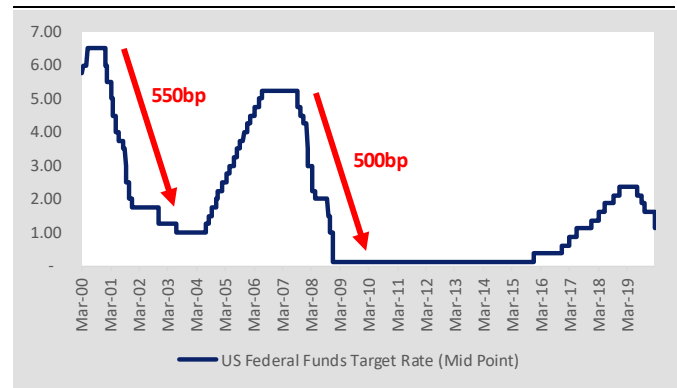
1. Zero interest rate policy with little ammunition left amid rising recession risk in the US (*We talk about this in the section below*).
2. Debt issues in China amid the disruption to the economy.
3. Second round of trade dispute between China and the US in the election year.
4. Supply chain reallocation in Asia, which in the long-term will benefit Southeast-Asian countries.
5. Brexit risks still haunting the EU.

In the next few weeks, we will give detailed analysis of each issue in subsequent reports.

Historical precedence for US Federal Reserve's emergency 50bp cut. The US Federal Reserve announced an emergency 50bp cuts on 3 March 2020, citing downside risks from the coronavirus outbreak. However, monetary policies such as rate cuts may not be sufficient to prevent a recession if the outbreak affect consumer behaviour and continue to disrupt global supply-chains.

Our analysis of the two previous instances of 50bp rate cuts in January 2001 and September 2007 showed that a recession in the US still followed after around a lag of around 3 months (see Figure 1). Making matters worse, the US Federal Reserve now has less room to cut rates compared to 2001 and 2007, when it slashed rates by 550bp and 500bp respectively. Therefore, recession risks are clearly rising to the highest level since the global financial crisis in 2008.

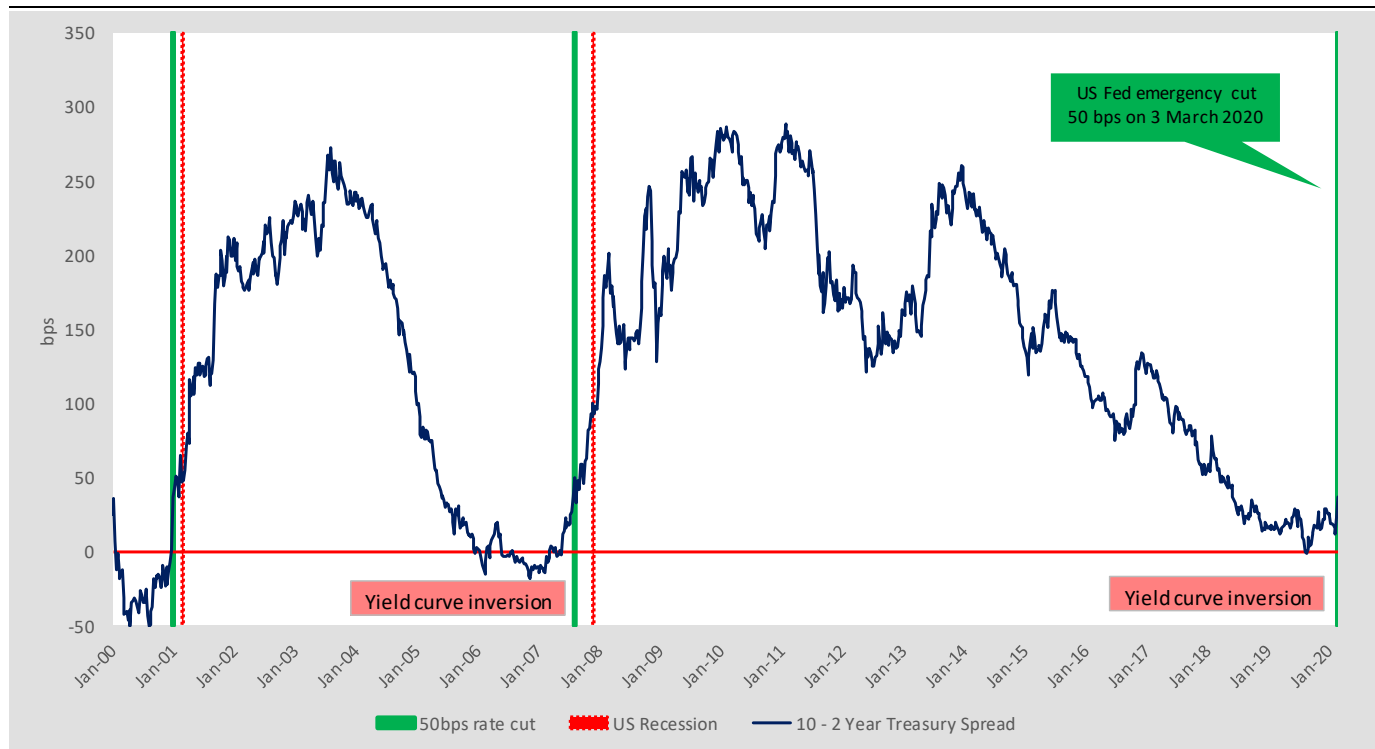
Figure 2: US Federal Funds Target Rate (Mid-point). Interest rates are already near historical lows going into the current economic slowdown.



Source: Bloomberg, KGI Research

US recession risk

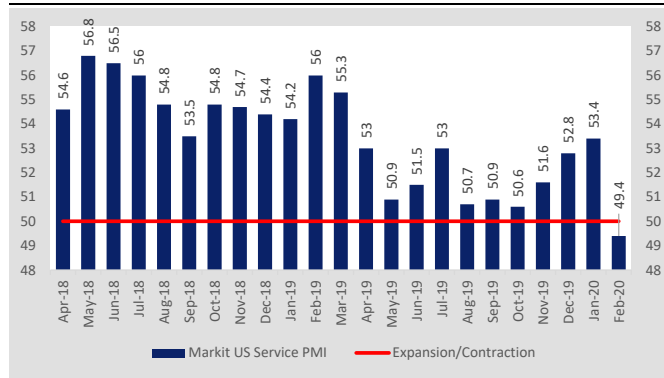
Figure 1: US 10-2 Year Treasury Spread, 50 bps cuts and subsequent recessions (20 Years)



Source: Bloomberg, KGI Research

Fragile economic support; Covid-19’s final blow. Early signals such as the US Service PMI, which dropped to the lowest level since October 2013, indicate the growing concerns about the coronavirus outbreak. Given that the US manufacturing sector was already slowing down in 2019 and that the only area holding up the US economy were the consumers, a negative unforeseen and external shock such as the coronavirus outbreak has the potential to deal the final blow.

Figure 3: IHS Markit US Services PMI. The Service PMI surprised with a reading of 49.4 in February 2020, the lowest level since October 2013.



Source: Bloomberg, KGI Research

Watch for US employment and services sector. Over the coming weeks, important economic data tracking employment in the US, specifically jobless claims, and the service sector will be critical. This is mainly because the month of March will be a vulnerable window where we may see a synchronised slowdown of the two largest economies in the world, which would be negative for risk assets in the next few months.

Is the ETF bubble finally going to burst?

- The ETF industry has yet to undergo its first major test in a bear market. What happens when everyone exits through the same door at the same time?

- Michael Burry of the “The Big Short” says index funds are a massive bubble, likening them to the collateralised debt obligations (CDO) that he shorted before the global financial crisis in 2008.

- If massive capital inflows into index funds were the key driver of stock and bond performance over the past decade, the reverse will exacerbate the current sell-off. Bloomberg data which tracks ETF flows show that there is still significant room for more ETF outflows from equities.

US-focused equities ETF outflow still minimal. According to Bloomberg data tracking ETF fund flows, there has only been US\$2.5bn net outflow from US-focused equity ETFs over the past month. This only represents less than 5% of the total net inflows over the last three months.

Still more room for downside when fund redemption accelerates. With the ongoing COVID-19 and renewed oil price war, fund outflows could exacerbate and trigger further selling pressure, which would lead to indiscriminate selling of index stocks.

Figure 1: Fund inflows into US ETFs are still positive year-to-date, which means more room for stocks to fall when fund redemption increases.

Asset Class	1D	1W	1M	3M	YTD	1Y	3Y
1) Equity	-9,712	-6,383	-13,200	+128,237	+53,520	+330,569	+1,254,348
10) United States	-394	+5,414	-2,487	+52,197	+24,130	+184,927	+476,816
11) International*	-245	-1,193	+469	+27,912	+13,869	+49,839	+242,255
12) Developed Markets*	-4,102	-4,666	-67	+13,263	+7,654	+29,473	+139,538
13) Japan	-113	+659	-1,398	+4,905	+4,836	+26,972	+121,088
2) Fixed Income	+1,234	+7,662	+23,495	+77,036	+55,147	+282,626	+617,810
20) United States	-356	+7,908	+15,882	+51,896	+36,688	+178,904	+383,810
21) Global*	+274	+426	+3,621	+10,473	+8,869	+41,512	+84,559
22) International*	+116	+139	+1,456	+5,173	+3,108	+12,083	+40,632
23) Emerging Markets*	+18	-396	+1,050	+4,353	+2,803	+7,938	+24,790

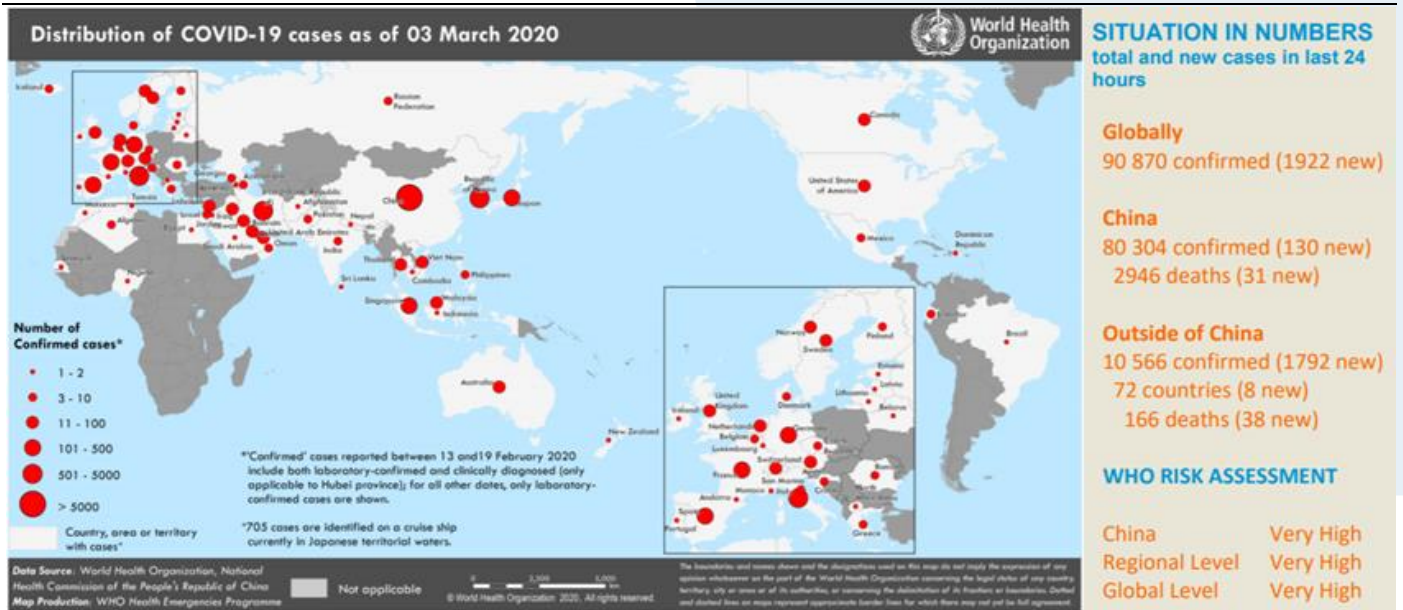
Source: Bloomberg, KGI Research

IN CASE YOU MISSED IT...

FEBRUARY HIGHLIGHTS

The World Health Organisation (WHO) raised the coronavirus risk to its maximum level on Friday, 28 February, after the virus emerged on every continent except Antarctica. **Covid-19 spread fervently over the last week of February**, with the number of cases surging in South Korea, across Western Europe in Italy and France, and the Middle Eastern Region in Iran. Our thoughts go to the victims, their families, and all health-care workers battling the outbreak.

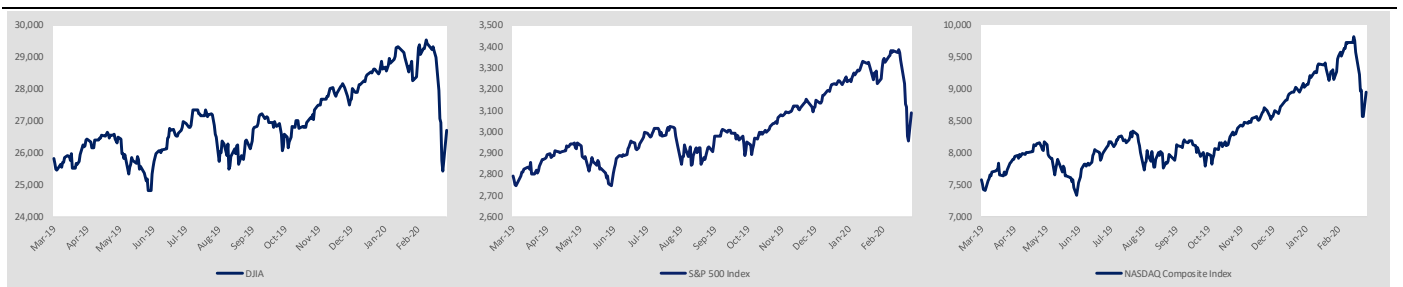
Figure 1: Countries, territories or areas with reported confirmed cases of Covid-19 and Situational assessment of Covid, 3 Mar 2020



Source: [World Health Organisation \(WHO\) Situation Reports](#), KGI Research

Financial markets saw violent sell-downs in the last few days of February – with a most equity indices falling by leaps and bounds, wiping out more than a quarter of gains for some. U.S. and European equity markets which had been mostly resilient since the outbreak, are now starting to price in greater downside risks, with the Dow Jones falling more than 1,000 basis points (bps) on February 24th and 27th, and the S&P 500 Index seeing its fastest correction in history.

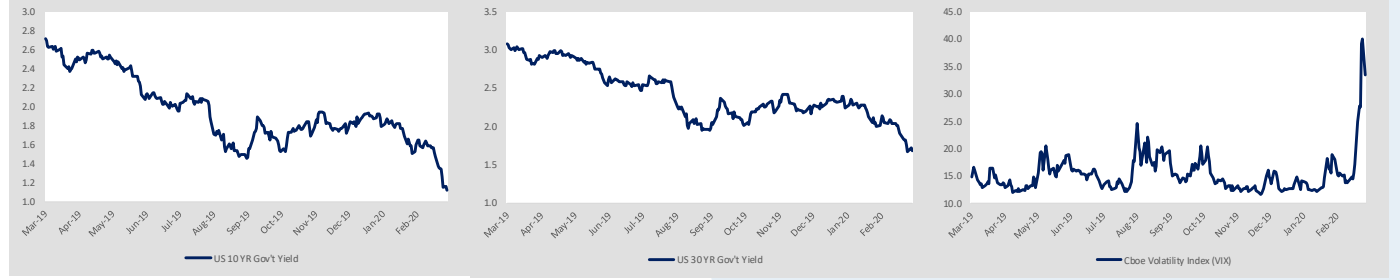
Figure 2: Dow Jones Industrial Average, S&P 500 Index, and NASDAQ Composite Index; 6 months performance



Source: Bloomberg, KGI Research

Ten-year and thirty-year government bond yields in the U.S. have slid more than 50 bps since the start of the year, hitting a new record low, as investors flee equities. The CBOE volatility index (VIX) nearly tripled in the last week of February, given all that went down, to the highest level since 2015.

Figure 3: US 10-year Treasury, US 30-year Treasury, CBOE VIX Index; 1 year performance



Source: Bloomberg, KGI Research

Technology stocks were the biggest losers in February as shutdowns in China disrupt supply chains and worries of a Covid-19 spread in the US heightened, despite having rallied earlier in the month due to better-than-expected earnings. Microsoft and Apple have both warned of missing 1Q20 forecasts due to supply chain disruptions and curtailed demand in China.

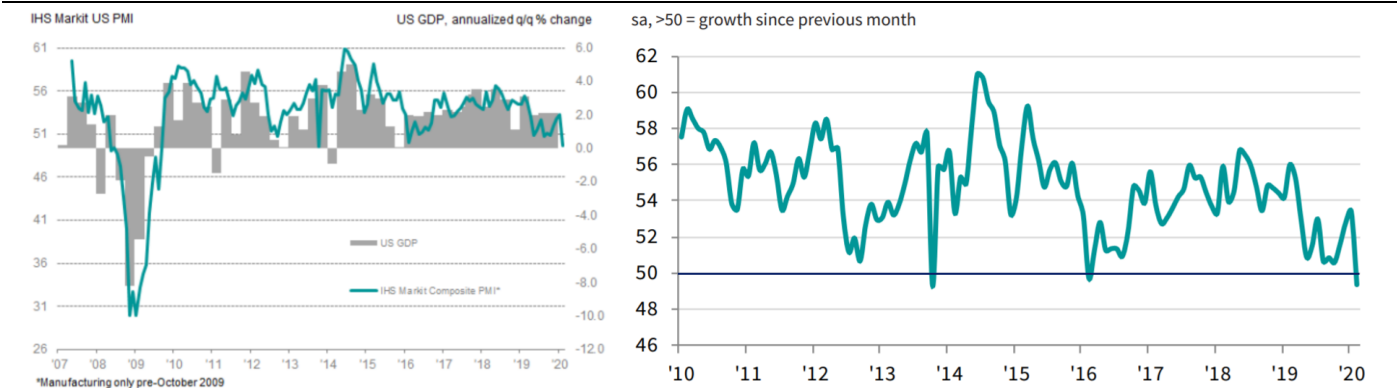
Figure 4: Apple Inc, Amazon Inc, Microsoft Corporation; 1 year performance



Source: Bloomberg, KGI Research

IHS Markit Flash U.S. Composite PMI for February declined steeply into contraction territory, signifying the first slump in U.S. private-sector activity since 2013. At 49.6 in February (January 2020: 53.3), it hit a 76-month low, dragged down mainly by a worsening in the service sector, where output fell for the first time in four years. (The Composite Output PMI is a weighted average of the Manufacturing Output Index and the Services Business Activity Index.)

Figure 5: IHS Markit US Composite PMI and U.S. GDP; IHS Markit US Services PMI



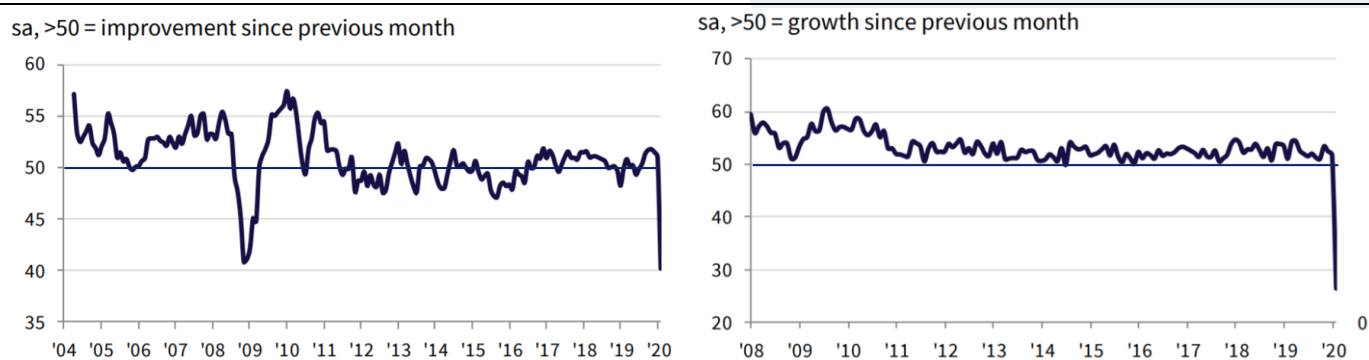
Source: IHS Markit, US Bureau of Economic Analysis, KGI Research

Commenting on the PMI data, Chris Williamson, Chief Business Economist at IHS Market said: “With the exception of the government-shutdown of 2013, US business activity contracted for the first time since the global financial crisis in February... “Total new orders fell for the first time in over a decade. The deterioration in was in part linked to the coronavirus outbreak, manifesting itself in weakened demand across sectors such as travel and tourism, as well as via falling exports and supply chain disruptions. However, companies also reported increased caution in respect to spending due to worries about a wider economic slowdown and uncertainty ahead of the presidential election later this year”.

Over in China, Chinese equities rallied to a 1-month high on 20 Feb, supported by a rate cut and promises of additional support from the central bank, decreasing numbers of new COVID-19 cases, and a few encouraging surveys pointing to earlier-than-expected factory openings in some provinces.

However, on Friday 28th February, the CSI 300 large-cap index and the Shanghai Composite Index both fell by around 3.7%, reacting to sharp falls in developed markets on Thursday 27th February. Efforts to contain the recent outbreak of the coronavirus in mainland China weighed heavily on manufacturing sector performance in February. Since the survey began in 2004, production, new work and staffing levels all fell at the quickest rates as companies extended their usual Lunar New Year shutdowns. February General Services PMI data also signalled the first reduction in business activity across China's service sector on record.

Figure 6: IHS Markit Caixin China General Manufacturing PMI; IHS Markit Caixin China General Services PMI



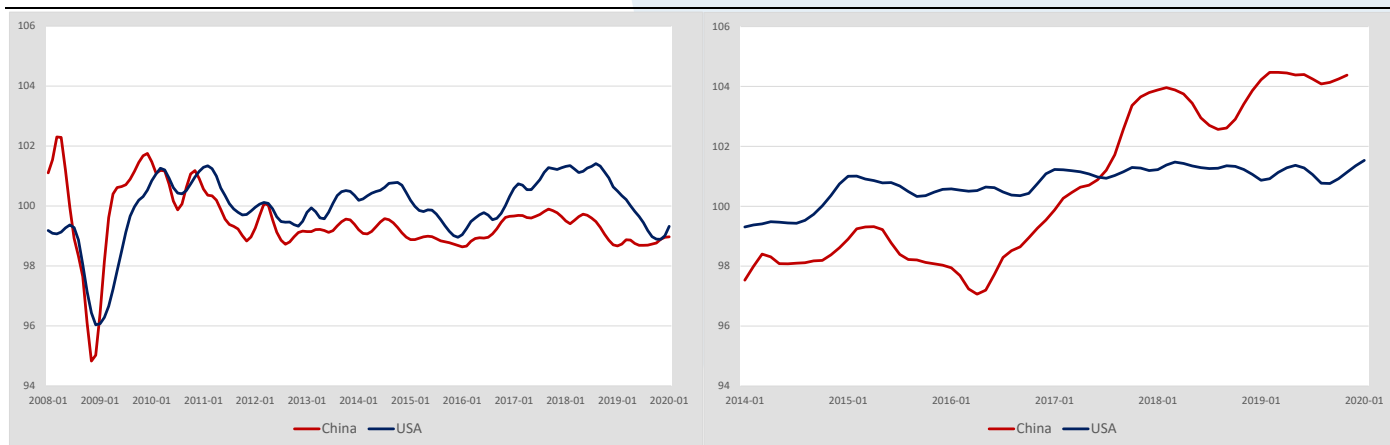
Source: IHS Markit, Caixin, KGI Research

In both US & China though, business and consumer confidence remains somewhat buoyant as central banks respond aggressively.

The People’s Bank of China (PBOC) has deployed many new stimulus measures, in addition to injecting US\$174bn of liquidity into financial markets under a “reverse repo” scheme. The PBoC will purchase a range of securities from investors seeking ready cash to avoid forced selling in the equity markets. Business confidence in China’s services industry though, fell to a record low in February. Despite the Chinese government providing tax and financing support for the industry and small businesses heavily impacted by the epidemic, service companies were still concerned about uncertainties resulting from the epidemic.

Odds are increasing that the Federal Open Market Committee (FOMC) will also vote to cut the federal funds rate. Federal Reserve Chair Jerome Powell published a statement acknowledging that the outbreak was "posing evolving risks," while promising that the Fed would "use our tools and act as appropriate to support the economy."

P.S. On March 3rd, the Fed has cut interest rates by half a percentage point, its biggest single cut in more than a decade.

Figure 7: Business confidence index (BCI), Consumer confidence index (CCI); Long-term average = 100


Source: OECD (2020), KGI Research

China has also been using some of the country's advances in high tech in its battle against the coronavirus. Huawei and China Telecom jointly set up a [5G-enabled remote video diagnostic centre](#), which enables medical staff to conduct remote online consultations with potential patients, while Infervision's Coronavirus AI is improving the CT diagnosis speed for each case by immediately screening out suspected infected patients for further diagnosis and treatment; Alibaba Cloud has offered [AI computing capabilities](#) to public research institutions **for free** to support virus gene sequencing, new drug R&D and protein screenings while Baidu has opened up [LinearFold](#), its RNA prediction algorithm, to genetic testing agencies, epidemic prevention centres and research institutes around the world; and JD Logistics deployed [autonomous ground robots](#) for last-mile delivery of supplies in Wuhan hospitals. These are just a few among the umpteen initiatives and developments by Chinese companies who have been contributing tirelessly to China's Covid-19 response – and we think it just might be what's holding up confidence despite the mounting number of cases and deaths.

WHAT WE'VE BEEN UP TO

Figure 8: February company updates

BBG Ticker	Company Name	Industry	Currency	Last Traded	Target Price	Potential Upside (ex.div)
AEM SP	AEM HOLDINGS LTD	Information Technology	SGD	2.17	2.60	19.8%
ARAUS SP	ARA US HOSPITALITY TRUST	Real Estate	USD	0.71	0.95	34.8%
CRCT SP	CAPITALAND RETAIL CHINA TRUS	Real Estate	SGD	1.45	1.66	14.5%
CD SP	COMFORTDELGRO CORP LTD	Industrials	SGD	1.97	2.28	15.7%
EAGLEHT SP	EAGLE HOSPITALITY TRUST	Real Estate	USD	0.37	0.51	37.8%
ECWREIT SP	EC WORLD REIT	Real Estate	SGD	0.72	0.82	13.9%
FRKN SP	FRENCKEN GROUP LTD	Industrials	SGD	0.84	1.01	21.0%
MUST SP	MANULIFE US REAL ESTATE INV	Real Estate	USD	1.00	1.11	11.0%
SMM SP	SEMBCORP MARINE LTD	Industrials	SGD	1.08	1.19	10.2%
SSG SP	SHENG SIONG GROUP LTD	Consumer Staples	SGD	1.25	1.40	12.0%
THBEV SP	THAI BEVERAGE PCL	Consumer Staples	SGD	0.79	0.96	22.3%

Source: Bloomberg, KGI Research

AEM HOLDINGS

Maintain OUTPERFORM, with increased TP to S\$2.60, based on 2020F diluted EPS. Our new 12M TP is based on a lower PE multiple of 12x, to account for the current COVID-19 situation. We increase FY2020F forecasts, and introduce our estimates for 2022. Key estimate revisions include: increased revenue contribution from all divisions, higher gross margins, and higher staff costs.

ARA US HOSPITALITY TRUST

Maintain **OUTPERFORM** based on fair value of US\$0.95. We believe that the contributions from its three new Marriott acquisitions will help soften the impact of supply headwinds, the transitional period for ARA hotels' new management, as well as any subdued demand due to the year-end elections. We remain optimistic but conservative, due to the less than optimal macro outlook.

CAPITALAND RETAIL CHINA TRUST

Maintain **OUTPERFORM** with a lower TP of US\$1.66. CRCT returned -6.2% year-to-date, significantly underperforming the FTSE ST REIT Index's +3.5% year-to-date total returns (inclusive of dividends), as concerns over the impact of the coronavirus weighed on its unit price. However, we believe this is an attractive opportunity to accumulate CRCT for its 6.6%-7.0% FY20-22F dividend yields.

COMFORTDELGRO CORPORATION

We maintain **OUTPERFORM** but lower our target price to S\$2.28, pegged to a more conservative 17.5x 2020F EPS (5-year average vs 1SD above mean in our prior report). The current 15% YTD share price sell-off is a buying opportunity, in our view. Despite the challenging environment over the next 12 months, CD remains in an enviable position to recover when the situation improves, with a strong balance sheet and cash flows to provide it with reserve fuel to turbo charge growth when the opportunity is right.

EAGLE HOSPITALITY TRUST

Downgrade **NEUTRAL** based on fair value of US\$0.51. We remain conservative, with 2020 RevPAR projections subdued due to a lack of near-term catalysts. DPU has dipped accordingly to 4.93 US cents for our FY20F forecasts, representing a total return of c.6.1% (incl. div).

EC WORLD REIT

Maintain **OUTPERFORM** based on fair value of US\$0.82. We remain optimistic but conservative, due to the less than optimal outlook for China. Risks to note are its high dependency on its sponsor for rental income; potential non-renewal of upcoming lease expiry with China Tobacco Zhejiang Industrial Co., Ltd. (Hengde Logistics – specialized logistics asset); and the defaulting of any tenants impacted by a drastic slowdown in business due to Covid-19.

FRENCKEN GROUP LIMITED

We upgrade to **OUTPERFORM**. Our fair value of S\$1.01 is based on a conservative 10x FY20F earnings and a 20-30% discount to peers' P/E and P/B valuations. FRNK trades at only 4x FY20F EV/EBITDA, making it an attractive takeover target for Asian-based companies looking to diversify to Europe and the US. Management has guided for both its semiconductor and medical segment to post YoY sales growth in 1Q20. However, there will be YoY top line declines under its analytical, industrial automation and automotive segments.

MANULIFE US REIT

Downgrade to **NEUTRAL** with TP of US\$1.11. While we continue to like MUST's excellent track record, where it has grown AUM to US\$2.1bn (as at end FY19), from US\$1.7bn and US\$1.3bn as at end FY18 and FY17 respectively, we expect the growth rate to slow down going forward. We would prefer to accumulate on price weakness as its FY20F yield has compressed to below 6.0%.

SEMBCORP MARINE LTD

We maintain our **NEUTRAL** recommendation and lower our fair value to S\$1.19, based on one standard deviation below its 5-year P/NTA average. The group is expected to remain loss-making in FY20F, but attention will likely focus on corporate actions.

SHENG SIONG GROUP LTD

Maintain **OUTPERFORM**, TP of \$1.40. We factored in a higher store count and total retail area in line with SSG's fairly aggressive expansion, especially given that the new Aljunied outlet that opened 1 Jan 2020 already takes up 18,000 sqft. SSG (23x FY20F P/E) continues to trade within a comfortable range, near its 5 year historical average of 22.5x.

THAI BEVERAGE

Upgrade to **OUTPERFORM** with a higher TP of US\$0.96. While we acknowledge the short-term impact from the coronavirus and Vietnam's drink driving laws, we remain positive on THBEV's long-term fundamentals and dominant market share in both Thailand and Vietnam. THBEV is well-positioned given that its key markets are ranked among the top alcohol consuming countries in Asia. The listing of its beer business remains a possibility and a key re-rating catalyst, although management has reiterated that it is only exploratory at this point.

For our reports, kindly approach your trading representative, or visit our website (delayed) at www.kgiworld.sg/securities/research/.

MARCH OUTLOOK

Keep an eye out for our strategy reports in the coming weeks! 😊



Sunpower Group

(SPWG SP/SUNP.SI)

Expecting a quick China recovery in 2Q20

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- 4Q19 results beat our expectations due to strong growth in the GI segment, offsetting a slight dip in M&S segment.
- The COVID-19 outbreak resulted in the extended shutdown of most plants under the GI segment, and the resumption of operation has been slow. Though the M&S segment remains status quo, we expect 1Q20 results to be lower YoY. However, 1Q performance is relatively weak seasonally, and we expect limited impact for the full year.
- We maintain OUTPERFORM with an unchanged TP of \$0.91 given that the fundamentals of each project are intact. Our valuation is based on sum-of-the-parts method, adding up each project's discounted cash flows over their 20-30 year concession periods. Therefore, lower than expected cash flows in one or two quarters would not have a significant impact on the overall valuation.

Financials & Key Operating Statistics

YE Dec (RMB m)	FY17	FY18	FY19	FY20F	FY21F
Revenue	1,965	3,263	3,605	3,866	4,540
Gross Profit	408	694	889	1,007	1,201
PATMI	117	254	352	368	472
Basic EPS	16	34	45	47	60
Fully Diluted EPS	9	19	27	28	36
Basic EPS grth (%)	-18%	117%	31%	3%	28%
Basic P/E (x)	16.9	7.8	5.9	5.8	4.5
Fully diluted P/E (x)	29.8	14.1	10.1	9.6	7.5
Basic P/B (x)	1.7	1.4	1.1	0.9	0.8
Fully Diluted P/B (x)	2.9	2.4	1.9	1.6	1.3
Gross Margin (%)	21%	21%	25%	26%	26%
Net Margin (%)	6%	8%	10%	10%	10%
Net Gearing (%)	8%	36%	80%	75%	75%
Interest Coverage (x)	5.4	6.3	5.1	4.4	4.8
ROE (%)	10%	17%	19%	16%	17%

Source: Company Data, KGI Research

Revenue and earnings beat estimates due to stronger than expected contributions from GI segment. FY19 revenue and PATMI beat our forecasts by 7.1% and 16.2% respectively due mainly to the substantial growth of the Green Investment (GI) segment offsetting the dip in Manufacturing and Services (M&S) segment. During the period, GI's revenue soared by 56.7% YoY while M&S slightly dropped by 3.0% YoY. Shantou Phase 1 project (under trial-run phase) and Suyuan plant were newly added into the portfolio in 4Q19. As of December 2019, there were nine projects under operations, including one in trial-run. Another three projects are in the pipeline: Shantou Phase 2, new plant of Xintai Zhengda and Tongshan Phase 1. M&S maintained at roughly the same revenue level compared to FY18 due to full capacity. Its order book remained at RMB2.5bn as of January 2020, which will provide enough workload for 2020.

Preliminary assessment of the COVID-19 impact. Sunpower's business, steam/heat/power supply, heavily depends on the production in the industrial park where each plant is located and specifically serves. Officially, China extended the Spring

Outperform - Maintain

Price as of 3 Mar 20 (SGD)	0.52	Performance (Absolute)	
12M TP (\$)	0.91	1 Month (%)	9.5%
Previous TP (\$)	0.91	3 Month (%)	-2.8%
Upside (%)	75.0	12 Month (%)	-12.2%
Trading data		Perf. vs STI Index (Red)	
Mkt Cap (\$mn)	422		
Issued Shares (mn)	792		
Vol - 3M Daily avg (mn)	1.8		
Val - 3M Daily avg (\$mn)	1.1		
Free Float (%)	41.0%		
Major Shareholders			
Guo Hongxin	19.0%	6-Dec-19	OP \$0.91
Ma Ming	17.0%	-	-
Lin Yucheng	12.3%	-	-

Festival holiday for three days until 2nd February. However, according to the Ministry of Transport, the daily passenger traffic did not ramp up immediately the week after the long holiday (3rd to 9th February). Even though traffic did rise over the weekend, it subsequently tapered off.

We believe the resumption of work slowly recovered throughout the whole month but has yet to normalise as of the beginning of March. To support our estimates, we take daily coal consumption during the ongoing outbreak period as a proxy of industrial productivity in China. Coal demand volume from the six major power groups shows an L-shape in the post-Chinese New Year (CNY) period amid the COVID-19 outbreak instead of the usual V-shape recovery in each of the past years. Therefore, the data shows that productivity is still restricted at the moment.

Valuation & Action: We maintain our OUTPERFORM recommendation with an unchanged target price of \$0.91, based on sum-of-the-parts method, adding up each project's discounted cash flows. These projects have between 20 to 30 years of concession period. Therefore, lower than expected cash flows in one or two quarters would not have a significant impact on the overall valuation.

Risks: As of early March, the COVID-19 outbreak seems to be under control in China as the daily infected cases reported have been trending down. However, we cannot rule out the possibility that the resumption of work could result in a second wave of outbreak in China. Our valuation forecast and outlook are based on the assumption that COVID-19 will be contained by April, and overall business operations are expected to normalise accordingly. If the outbreak extends into 2Q20, then the impact for FY20 will be substantial.

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 FY19F (%)	Div Yield FY20F (%)
FINANCIALS								
DBS SP	DBS	23.00	58,816	(2.5%)	(11.1%)	(4.6%)	5.7%	5.9%
OCBC SP	OCBC	10.21	44,926	(2.0%)	(7.0%)	(3.7%)	5.3%	5.5%
UOB SP	UOB	23.20	38,705	(2.3%)	(12.2%)	(5.2%)	5.6%	5.7%
SGX SP	SGX	8.91	9,538	(1.4%)	1.4%	4.9%	3.5%	3.7%
PROPERTIES								
CAPL SP	CapitaLand	3.54	17,885	(4.1%)	(5.6%)	0.3%	3.6%	3.7%
HKL SP	Hongkong Land USD	4.90	15,907	(3.0%)	(14.8%)	(0.2%)	4.8%	4.9%
AREIT SP	Ascendas REIT	3.38	12,229	(2.0%)	15.0%	10.5%	4.8%	5.0%
CIT SP	City Development	9.60	8,706	(2.1%)	(12.3%)	(1.7%)	2.1%	2.1%
CT SP	CapitaLand Mall Trust	2.48	9,152	(2.0%)	2.1%	9.3%	5.1%	5.2%
CCT SP	CapitaLand Comm Trust	2.01	7,762	(2.0%)	2.9%	8.1%	4.4%	4.6%
UOL SP	UOL	7.12	6,006	(2.7%)	(14.4%)	(3.4%)	2.5%	2.5%
TELECOMMUNICATIONS								
ST SP	SingTel	2.95	48,170	(1.3%)	(12.5%)	(1.7%)	6.1%	5.8%
CONSUMER SERVICES AND GOODS								
JM SP	Jardine Matheson USD	52.39	52,962	(0.1%)	(5.8%)	(3.7%)	3.5%	3.7%
JS SP	Jardine Strategic Holdings	26.81	40,992	(1.4%)	(12.5%)	(6.6%)	1.4%	1.5%
THBEV SP	ThaiBev	0.78	19,590	(2.5%)	(10.7%)	0.0%	3.1%	3.4%
JCNC SP	Jardine C&C	26.00	10,276	(2.4%)	(13.6%)	(3.2%)	4.2%	4.3%
GENS SP	Genting Singapore	0.78	9,350	(1.9%)	(15.8%)	(4.9%)	5.2%	5.2%
DFI SP	Dairy Farm International	4.64	8,660	(2.3%)	(18.7%)	(3.3%)	4.5%	4.8%
VMS SP	Venture Corp	16.85	4,862	(0.9%)	4.0%	2.4%	4.2%	4.2%
SPH SP	SPH	1.89	3,013	0.5%	(13.3%)	0.0%	6.3%	6.3%
REIT								
MCT SP	Mapletree Commercial Trust	2.28	7,541	(0.9%)	(3.8%)	8.6%	4.1%	4.3%
MLT SP	Mapletree Logistics Trust	1.99	7,563	(1.0%)	15.2%	7.6%	4.1%	4.3%
TRANSPORT								
SIA SP	Singapore Airlines	7.96	9,434	(1.4%)	(11.9%)	(0.5%)	2.9%	3.6%
CD SP	ComfortDelGro	1.93	4,180	0.0%	(18.9%)	(1.0%)	5.3%	5.5%
COMMODITIES								
WIL SP	Wilmar	3.96	25,121	(2.2%)	(3.9%)	(0.3%)	2.9%	3.2%
OFFSHORE & MARINE/INDUSTRIALS								
STE SP	ST Engineering	4.21	13,114	(1.6%)	6.9%	1.0%	3.8%	3.9%
KEP SP	Keppel Corp	6.22	11,337	(1.4%)	(8.1%)	(1.9%)	3.6%	3.8%
SATS SP	SATS	4.03	4,506	(0.5%)	(20.4%)	0.0%	4.3%	4.4%
YZJSGD SP	Yangzijiang SGD	0.91	3,546	5.2%	(19.2%)	(4.2%)	4.7%	4.8%
SCI SP	Sembcorp Industries	1.77	3,155	(1.7%)	(22.7%)	(3.3%)	2.9%	3.4%

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 6 Mar 20	Yield (%)
Fragrance Group Ltd	25-Feb-20	FY19	SGD 0.003500	9-Mar-20	10-Mar-20	17-Mar-20	SGD 0.136	-
Fragrance Group - Dividend-in-Specie	25-Feb-20	FY19	SGD #####	9-Mar-20	10-Mar-20	17-Mar-20	SGD 0.136	-
BHG Retail REIT	25-Feb-20	FY19	SGD 0.01790	10-Mar-20	11-Mar-20	30-Mar-20	SGD 0.620	7.3
Koda	12-Feb-20	2Q20	SGD 0.0025	11-Mar-20	12-Mar-20	27-Mar-20	SGD 0.550	
Koda - Special	12-Feb-20	2Q20	SGD 0.0025	11-Mar-20	12-Mar-20	27-Mar-20	SGD 0.550	
Dasin Retail Trust	28-Feb-20	FY19	SGD 0.0206	13-Mar-20	16-Mar-20	30-Mar-20	SGD 0.820	4.1
EC World REIT	27-Feb-20	FY19	SGD 0.015100	13-Mar-20	16-Mar-20	27-Mar-20	SGD 0.715	8.5
BRC Asia	20-Nov-19	FY19	SGD 0.05000	17-Mar-20	18-Mar-20	26-Mar-20	SGD 1.610	
BRC Asia - Special	20-Nov-19	FY19	SGD 0.03000	17-Mar-20	18-Mar-20	26-Mar-20	SGD 1.610	
Asian Pay Television Trust	10-Feb-20	FY19	SGD 0.00300	19-Mar-20	20-Mar-20	27-Mar-20	SGD 0.158	7.6
STI DBS Grp Hldgs	13-Feb-20	FY19	SGD 0.3300	7-Apr-20	8-Apr-20	21-Apr-20	SGD 23.000	5.2
Qian Hu Corp Ltd	13-Jan-20	FY19	SGD 0.0030	7-Apr-20	8-Apr-20	23-Apr-20	SGD 0.150	1.3
Roxy-Pacific Holdings Ltd	20-Feb-20	FY19	SGD 0.01090	20-Apr-20	21-Apr-20	30-Apr-20	SGD 0.365	2.5
Straits Trading Co Ltd/Singapore	25-Feb-20	FY19	SGD 0.06000	21-Apr-20	22-Apr-20	8-May-20	SGD 2.040	2.9
First Sponsor Grp	12-Feb-20	FY19	SGD 0.016000	22-Apr-20	23-Apr-20	8-May-20	SGD 1.350	1.8
CEI	7-Feb-20	FY19	SGD 0.00400	23-Apr-20	24-Apr-20	4-May-20	SGD 0.980	
CEI - Special	7-Feb-20	FY19	SGD 0.03980	23-Apr-20	24-Apr-20	4-May-20	SGD 0.980	
Great Eastern Hldgs	19-Feb-20	FY19	SGD 0.50000	23-Apr-20	24-Apr-20	8-May-20	SGD 21.460	2.8
United Overseas Insurance	12-Feb-20	FY19	SGD 0.08500	24-Apr-20	27-Apr-20	8-May-20	SGD 6.960	
United Overseas Insurance - Special	12-Feb-20	FY19	SGD 0.07000	24-Apr-20	27-Apr-20	8-May-20	SGD 6.960	

Source: SGX Announcement / Bloomberg

Appendix 2: Financial Calendar

Monday	Tuesday	Wednesday	Thursday	Friday
9-Mar	10-Mar	11-Mar	12-Mar *Q3 Del Monte Pacific	13-Mar
16-Mar	17-Mar	18-Mar	19-Mar	20-Mar
23-Mar	24-Mar	25-Mar	26-Mar	27-Mar
30-Mar	31-Mar	1-Apr-2020	2-Apr	3-Apr *Q2 SPH REIT (Release on Sun, 5 Apr)
6-Apr	7-Apr *Q2 Spore Press Hldgs	8-Apr	9-Apr	10-Apr

* Tentative

Source: Bloomberg

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