IN CASE YOU MISSED IT…

1

August mainly saw increasing trade tensions between China and the U.S., with reverberations of the slowing global economy felt especially by major exporting countries. The latest economic data indicates that the slowdown is spreading from manufacturing to the services and labour markets, essentially deteriorating key economic fundamentals. On Tuesday, 3rd September, the United States' ISM Manufacturing Index dipped below 50, a level not seen since 2016.

2

We also watched China devalue its RMB above the **7.0** level against the U.S. dollar earlier this month on 5 August 2019, the currency's biggest one-day drop in decades. This could be seen as a preparatory response to the latest imposition of a **10% tariff** on the first portion (US$112BN of 300BN) of Chinese consumer imports on Sunday, September 1st. Goods affected include electronics (i.e. televisions, smart watches), books, beverages, and most of all - clothing/textiles. The currency has since slid further, just recently hitting an 11-year low.

3

Against this backdrop, we are continuing to see strong indications of risk aversion among investors. German and Japanese bond yields have **dropped below zero**, while prices of gold (spot hit its **six-year high** at US$1,445.18 earlier this month and has since crosses the US$1,500 mark, closing at US$1,519.05 on September 5th) and silver are on an upward climb, signalling a major flight to safety. Germany's economy is also believed to be on the brink of a recession, as business confidence has plunge to a seven-year low.

4

Speaking of which, the U.S. Treasury 2/10-year bond yield curve inverted this month, for the first time since **JUNE 2007.** In simple terms, consumer confidence in the short term economy is crumbling… But what is more worrying to investors is the fact that the last time this happened, the *2008 recession* followed…

5

BREXIT. It's still happening, October 31st - with or without a deal.

What's the "deal"? The deal is for a transition period, to allow for more time to sort out future UK-EU relations, and avoid instant disruptions. But it comes at a cost - the commitment to the possibility of a 'backstop', should no FTA be agreed upon by the end of the transition period.

Why is PM Johnson against the deal? He is against the possibility of the backstop, and the idea of "signing away" UK's "independence" from the EU, because the backstop can also only be avoided if **BOTH** the UK and the EU agree that it's not necessary. Otherwise, the backstop is in play. The UK wants to leave the EU single market and customs union, to allow it to pursue independent trade policies with others. This, however, means that it might deviate from the EU's view on tariffs and regulatory standards – and in turn might hinder a FTA, and have the EU enforcing checks and controls at the Irish border. (i.e., the backstop.)

What happens in a "no deal"? There would be no time to bring in a UK-EU trade deal. The UK would leave the single market and customs union OVERNIGHT. WTO tariffs and border checks will apply to goods entering the EU from the UK, potentially leading to astronomical costs, traffic bottlenecks, and disrupted supply routes.

September update: The latest parliamentary votes have now opened the door for another Brexit delay. Another vote is scheduled for Wednesday, September 4th. If the vote is successful, it would force PM Johnson to seek more time from the EU, and **prevent a no deal Brexit**.

PM Johnson
• Insistent on leaving on Oct 31st • Wants 'independence' from EU, want to leave the EU single market and customs union • Does not want to be subject to EU's ability to enforce the backstop
EU
• Wants a transition period through to December 2020 • Insistent on having the option of a backstop should FTA talks fail, since UK will no longer be a part of the single market and customs union

WHAT WE'VE BEEN UP TO

BBG Ticker	Company Name	Industry	Currency	Last Traded	Target Price	Rating	Potential Upside
UAG SP	UNI-ASIA GROUP LTD	Financials	SGD	0.745	1.24	OUTPERFORM	66.4%
IFS SP	IFS CAPITAL LTD	Financials	SGD	0.225	0.30	OUTPERFORM	33.3%
FRKN SP	FRENCKEN GROUP LTD	Industrials	SGD	0.655	0.81	NEUTRAL	23.7%
AGT SP	ACCORDIA GOLF TRUST	Consumer Discretionary	SGD	0.53	0.67	OUTPERFORM	26.4%
CD SP	COMFORTDELGRO CORP LTD	Industrials	SGD	2.5	2.77	NEUTRAL	10.8%
CRCT SP	CAPITALAND RETAIL CHINA TRUS	Real Estate	SGD	1.56	1.68	OUTPERFORM	7.7%
MUST SP	MANULIFE US REAL ESTATE INV	Real Estate	USD	0.91	0.98	OUTPERFORM	7.7%
GERL SP	GEO ENERGY RESOURCES LTD	Energy	SGD	0.15	0.14	NEUTRAL	-6.7%
THBEV SP	THAI BEVERAGE PCL	Consumer Staples	SGD	0.9	0.80	NEUTRAL	-11.1%

Prices retrieved as of market close on 05 September 2019

UNI-ASIA GROUP LIMITED – OUTPERFORM

What's going on here?

- UAG reported a 52% YoY increase in its 2Q19 PATMI to US$3.0mn, driven mainly by the US$3.9mn fair value gains from its Hong Kong office property projects.
- Its growing hotel business contributed US$20mn in revenue, a 34% YoY increase, which off-set the weaker figures in the shipping segment. Overall revenue grew 23% YoY to US$36mn.
- Due to IFRS16 rule changes, profitability in the hotel business dipped into the red for 1H19, at – US$1.4mn. It would have been at US$0.3mn profit, pre-IFRS 16 accounting changes.
- The share price fall-off creates an improving risk-reward scenario, and we maintain our OUTPERFORM recommendation.

What does this mean?

- Uni-Asia is a one-of-a-kind asset management company, managing two very different types of assets (ships and hotels), in two very different industries (international trade and tourism). Uni-Asia also develops commercial and residential properties for sale.
- For companies with such unique business properties, they can be well insulated from economic shocks. For Uni-Asia, while the shipping business has not been performing so well, the hotels business has been booming, and still has room for growth.
- However, the market tends to dislike such companies, valuing them at lower prices. A.k.a. Conglomerate Discount.
- We believe that it has been over-discounted though, with prices coming down since the start of the year. Investors could have sold due to fears of global economic slowdown and the protests from Hong Kong, which Uni-Asia is exposed to.

What could happen going forward?

- There may be land in sight for the shipping business, as charter rates for Uni-Asia's ships have rebounded from the lows of February. This translates to improved profitability when Uni-Asia charters out their ships upon contract expiry.
- Meanwhile, the property development business remains steady, and there is sufficient time for the situation in Hong Kong to improve until the pre-sales for one of its projects begin in 1H20.
- The hotel business, solely in Japan, will continue to see strong performance thanks to the 2019 Rugby World Cup and 2020 Tokyo Olympics. For Joel's full report, click here.

IFS Capital - OUTPERFORM

What's going on here?

- IFS Capital reported 2Q19 results on 13 August, growing PATMI to S$3.2mn, more than quadrupling YoY from S$0.8mn in 2Q18.
- Gross lending assets remain stable at S$377mn, a slight fall compared to S$380mn in December 2018.
- Performance was dented by the losses in the insurance business, but a turnaround might be in sight.
- We maintain an OUTPERFORM recommendation, raising the target price from S$0.29 to S$0.30.

What does this mean?

- IFS was able to grow its lending business despite the challenging interest rate environment. As moneylenders in a world of falling interest rates, IFS managed to hold on to its pricing power, leading to a slight increase in Net Interest Margin, the gross profitability measurement for lending businesses. IFS also grew the amount of loans they managed to S$209mn at end 2Q19, up from S$164mn in 2Q18.
- Excluding the S$2.3mn non-recurring profit from recovering Non-Performing Loans (essentially a S$2.3mn reversal of provision for bad debts), IFS still managed to eke out a 50% YoY gain on profit before tax.
- While losses still occurred at the insurance business, they were narrowed in 2Q19, indicative of the restructuring efforts undertaken to turn around the insurance subsidiary, ECICS Limited.

What could happen going forward?

- With all lending businesses now profitable, all eyes turn towards the insurance business, where relatively-new CEO Mr Choi Kin Seng can hopefully steer the business out of the red.
- As 1 of 6 firms licensed to use a new business model that uses a more data-centric approach, IFS Capital is well-positioned to grow in the consumer moneylending business given its track record of providing financial services to Small and Medium Enterprises (SMEs) for more than 30 years. For Joel's full report, click here.

Frencken Group Limited

We downgraded Frencken to a **NEUTRAL** following its ~70% year-to-date rally, but recent share price weakness has re-created a good opportunity to buy the stock again. For Joel's full report, click here.

Accordia Golf Trust

We reduced the target price of AGT from S$0.70 to S$0.67, but keep our **OUTPERFORM** rating. AGT stands to benefit from the stronger yen, and trades at >9% dividend yield. Even if DPU doesn't grow, there is still an attractive 7% dividend yield to take home. For Joel's full report, click here.

ComfortDelGro Corporation Limited

While a potential 7% rise in public transportation fees is nothing to scoff at, CD is quite fully valued, and continues to face Forex risks in its many markets. We maintained **NEUTRAL** with no change in target price. For Joel's full report, click here.

CapitaLand Retail China Trust

CRCT is likely to be able to bump up its DPU next year, through incremental rent increases and good retail performance in China Tier 2 cities. We maintain **OUTPERFORM** and gave a bump to its target price too, from S$1.61 to S$1.68. For Geraldine's full report, click here.

Manulife US REIT

Upped target price from US$0.97 to US$0.98, maintain **OUTPERFORM** as we continue to remain positive given the potential benchmark inclusion within the near term. MUST is trading at a yield premium compared to local peers, which we think is sufficient to compensate for the overhanging risk. For Geraldine's full report, click here.

Geo Energy Resources Limited

Dropped target price from S$0.21 to S$0.14, due to lowered coal production estimates. Maintained **NEUTRAL** on the back of a cautious outlook on the coal sector in the next 12 months. Chinese policies and macro-economic environment once again drove market sentiments and caused coal prices to weaken, and we expect a similar level of volatility in 2020 amid weaker global economic growth. For Joel's full report, click here.

Thai Beverage PCL

Target price increased to SGD$0.80 from a previous SG$0.75. Maintained **NEUTRAL** in view of seasonality effect on alcohol consumption and low input costs supporting net profit last quarter, both of which may reverse in the coming quarter. For Geraldine's full report, click here.

CHINA DEVELOPMENT FINANCIAL

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.