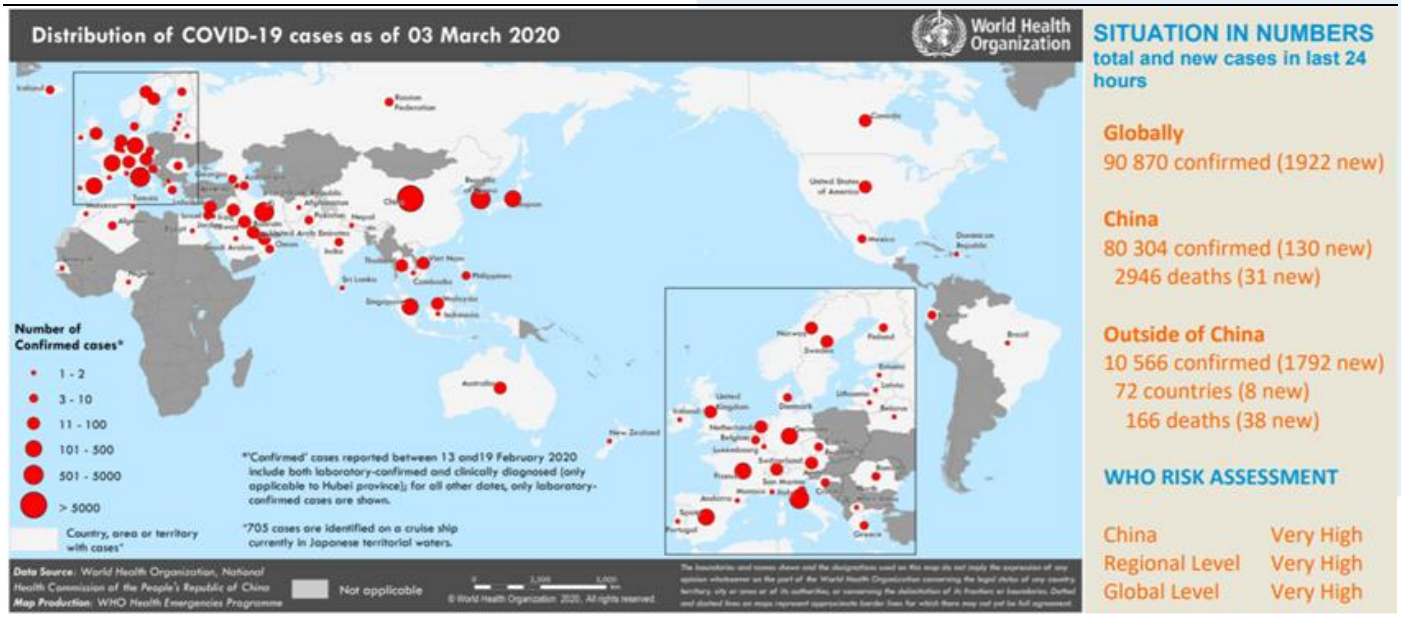
IN CASE YOU MISSED IT…

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.

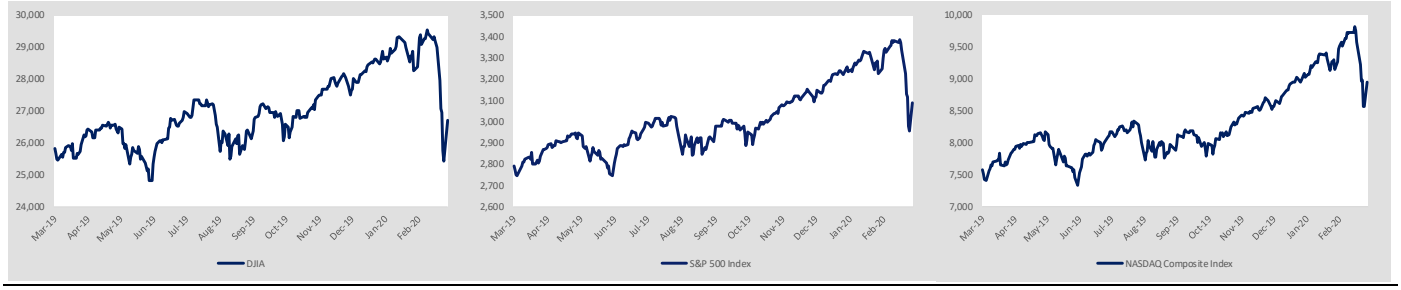
Figure 1: Countries, territories or areas with reported confirmed cases of Covid-19 and Situational assessment of Covid, 3 Mar 2020



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.

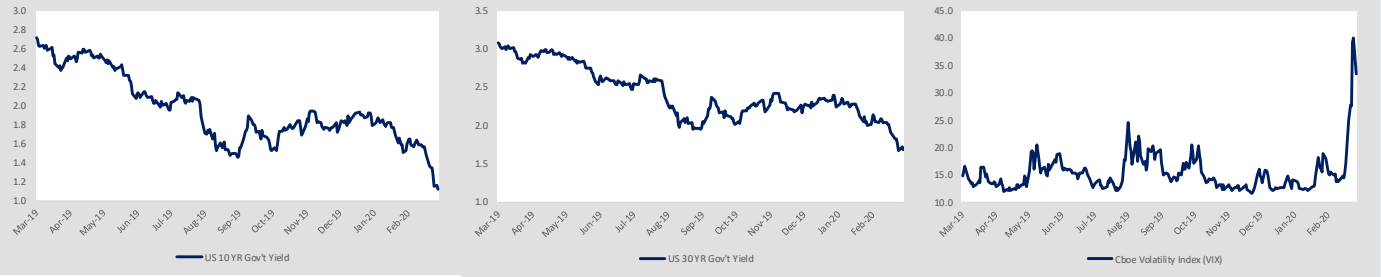
Figure 2: Dow Jones Industrial Average, S&P 500 Index, and NASDAQ Composite Index; 6 months performance



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

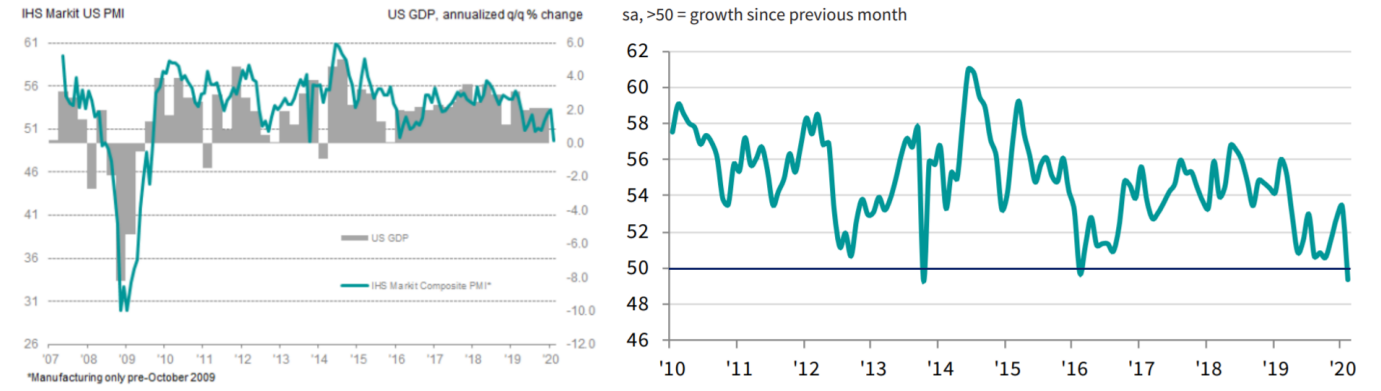
Technology stocks were the biggest losers in February as shutdowns in China disrupt supply chains and worries of a Covid-19 spread in the US heightened, despite having rallied earlier in the month due to better-than-expected earnings. Microsoft and Apple have both warned of missing 1Q20 forecasts due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



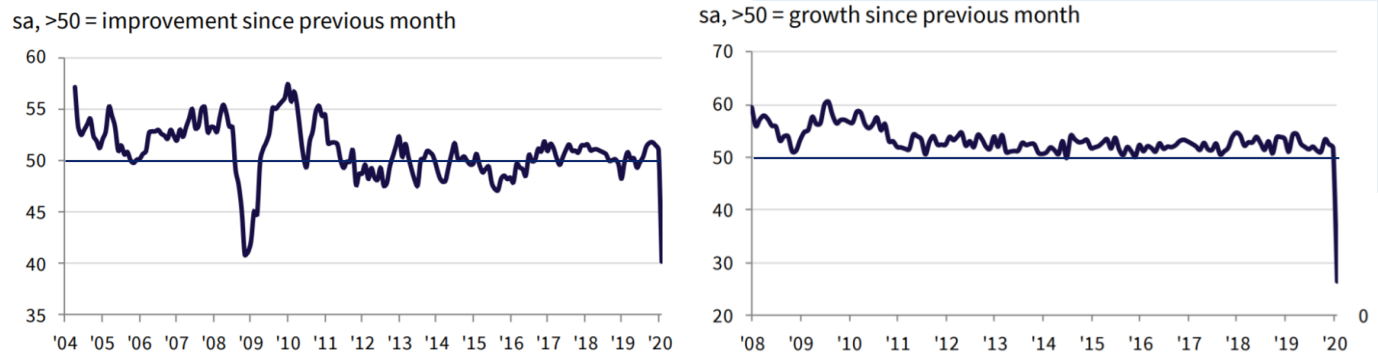
Source: IHS Markit, US Bureau of Economic Analysis, KGI Research

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

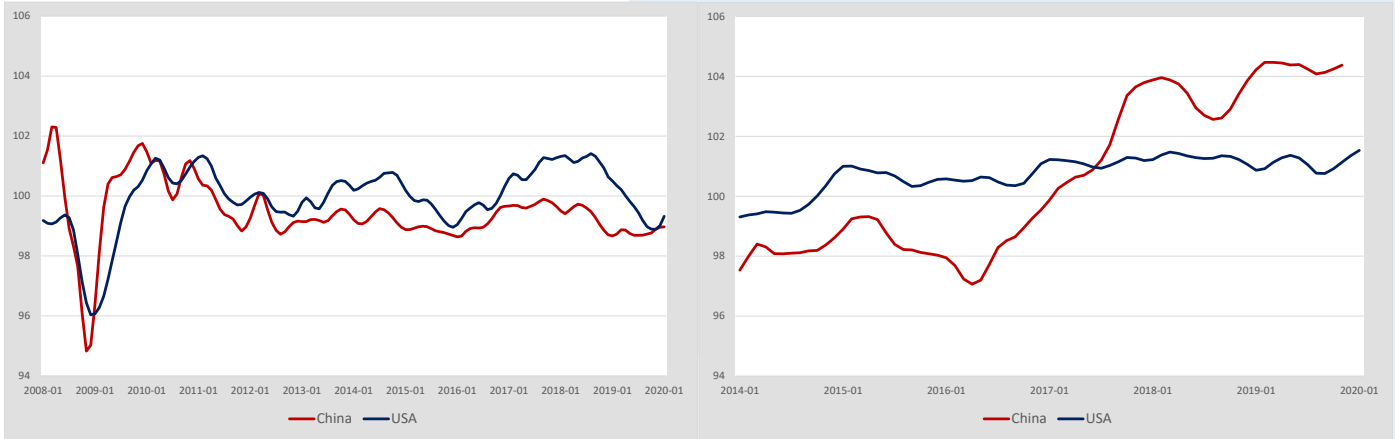
In both US & China though, business and consumer confidence remains somewhat buoyant as central banks respond aggressively.

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.

KGI CHINA DEVELOPMENT FINANCIAL

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.

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MARCH OUTLOOK

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KGI CHINA DEVELOPMENT FINANCIAL

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	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.
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