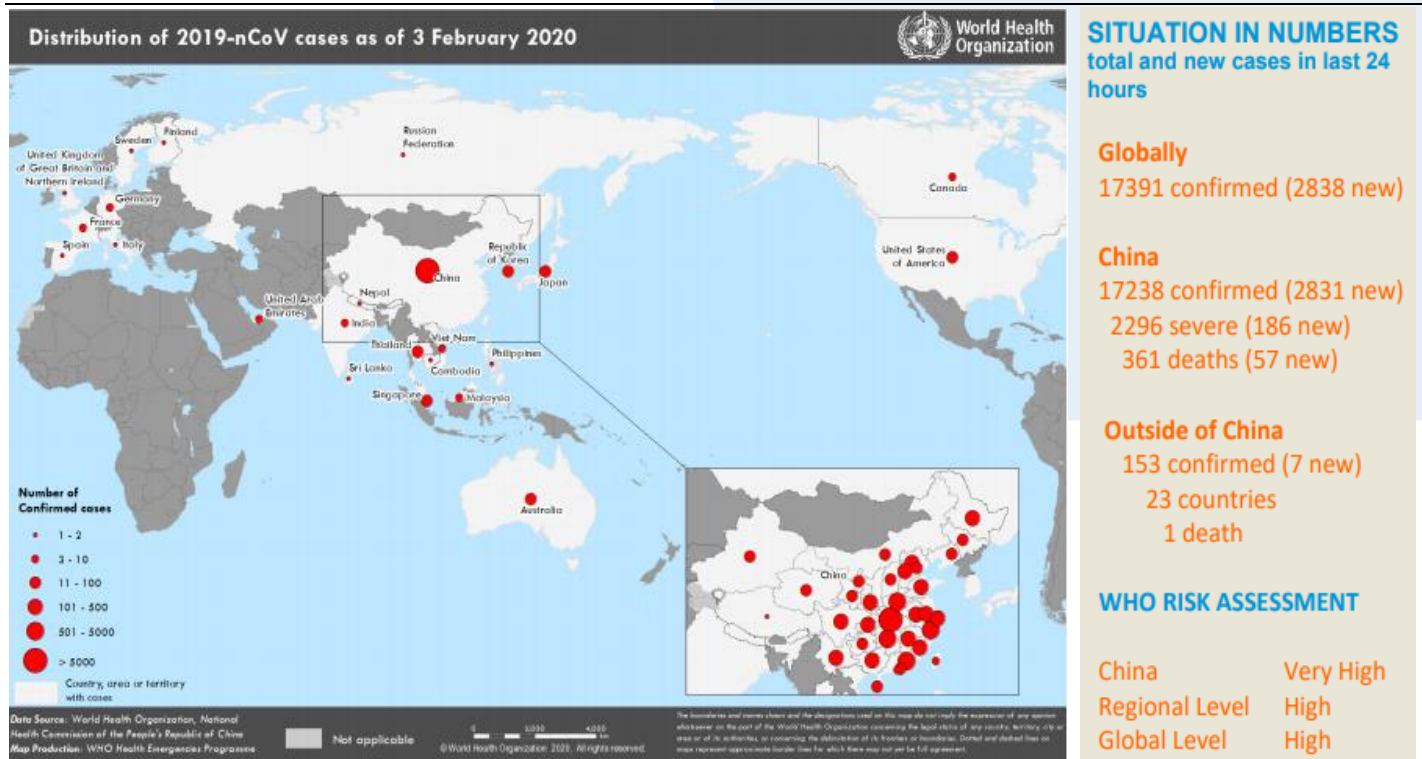


WE DOUBT YOU MISSED IT, BUT...

JANUARY HIGHLIGHTS

The world welcomed 2020 with gloom... over the Novel Coronavirus (2019-nCoV). Beyond exponentially increasing cases and death rates, the recent sell-downs has been further catalysed by domestic transmission cases in countries like Germany, Japan, Taiwan and Vietnam, and most recently the first death outside of China, in the Philippines. The Emergency Committee on the 2019-nCoV under the International Health Regulations (IHR 2005) also reconvened on 30 January, resulting in the World Health Organisation declaring the outbreak to be a public health emergency of international concern. In Singapore too, everyone was 'Kung Flu-fighting' as the Singapore stock market endured a violent sell-down over Chinese New Year.

Figure 1: Countries, territories or areas with reported confirmed cases of 2019-nCoV and Situational assessment of 2019-nCoV, 3 Feb 2020



Source: World Health Organisation (WHO) Situation Reports, KGI Research

Figure 2: S&P 500 Index, Shanghai Composite Index and STI Index; 1-year performance



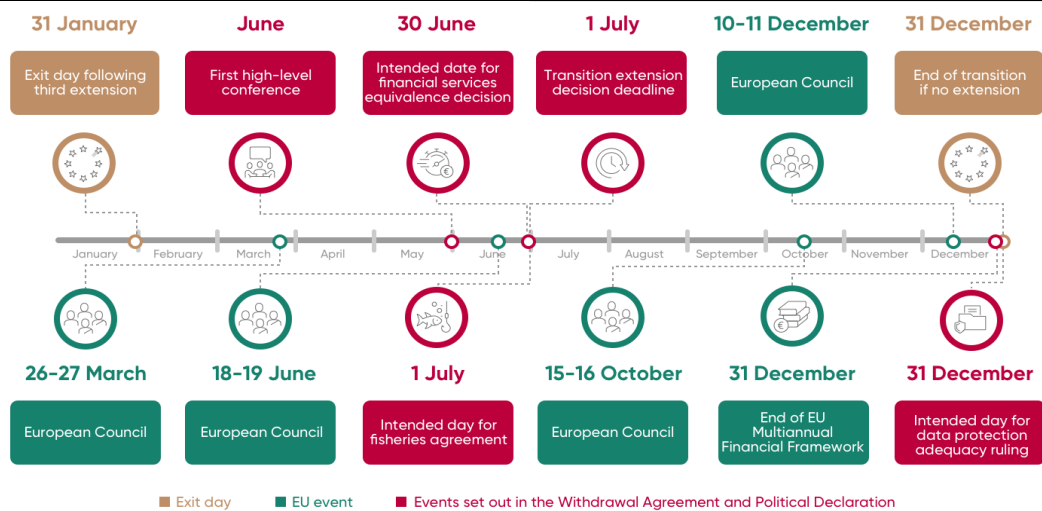
Source: Bloomberg, KGI Research

And then there was Brexit.

On January 31st 2020, at 23:00 GMT, the UK officially left the European Union after 47 years of membership - and more than three years after it voted to do so in a referendum. However, most EU rules and laws will remain status quo, including the free movement of people, until 31st December 2020, when the transition period comes to an end.

In the next 11 months, both parties would need to negotiate a new free trade agreement. If a new one cannot be agreed in time, then the UK faces the prospect of having to trade with no deal in place – this would mean tariffs on UK goods travelling to the EU and other trade barriers. In addition to trade negotiations, issues such as law enforcement, data sharing and security, supplies of electricity and gas and even the licensing and regulation of medicines need to be agreed upon.

Figure 3: Key Brexit milestones in 2020



Source: *The Institute for Government, UK*

Yet Prime Minister Boris Johnson has made clear that he does not intend to follow the bloc's rules and regulations, stating that "There is no need for a free trade agreement to involve accepting EU rules on competition policy, subsidies, social protection, the environment, or anything similar any more than the EU should be obliged to accept UK rules". Signs that the two sides are already at odds over how to interpret that declaration sent the British pound down about 1% against the US dollar and the euro on Monday as traders worried about the implications for the UK economy of failing to reach a deal.

Figure 4: The Sterling has not recovered from its post-referendum drop; Effective exchange rate index, Sterling (Jan 2005 = 100)



Source: *Bank of England, KGI Research*

WHAT WE'VE BEEN UP TO

Figure 5: January company updates

BBG Ticker	Company Name	Industry	Currency	Last Traded	Target Price	Potential Upside (ex.div)
AEM SP	AEM HOLDINGS LTD	Information Technology	SGD	1.94	2.57	32.5%
SBREIT SP	SOILBUILD BUSINESS SPACE REI	Real Estate	SGD	0.50	0.55	10.0%

Prices retrieved as of market close on 04 February 2020

Source: Bloomberg, KGI Research

AEM HOLDINGS

We maintain our **OUTPERFORM** rating with a **higher TP of S\$2.57**, from S\$1.80. AEM gave their FY2020 revenue outlook, which is 5-11% higher than their FY2019 outlook, and easily 12-19% higher than our forecast. We fine-tune our forecasts to account for information from 6 November 2019 onwards, including a re-appraisal of the key customer's business strategy, AEM's new acquisition Mu-TEST, and the provision of a bull case scenario.

SOILBUILD BUSINESS SPACE REIT

We maintain our **NEUTRAL** rating with a **reduced TP of S\$0.55**, from S\$0.58. We continue to wait for confirmation on its redevelopment plans for the NKL property and the approval from JTC for the sale of 72 Loyang Way. Regardless, current unit price could be well-supported as it is now trading near its 5 year historical low P/B ratio (0.87x), and offers the highest dividend yield (8.1%) among Singapore's industrial REIT sector (average 6.1%).

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

FEBRUARY OUTLOOK

In an attempt to allay investors' fears and worries, we – to the best of our ability – have tried to provide, and will continue to provide, timely updates in response to the 2019-nCoV. We published a short strategy report just yesterday, 3 Feb 2020, explaining the impacts we think the virus could have on financial markets.

Impact of coronavirus on financial markets.

We expect Asian equity markets, especially China, Hong Kong and Taiwan, which are the most severely affected, to undergo corrections at least through the end of February. The corrections will also likely be greater than the global average stock corrections, as the epidemic has yet to peak. The key observation timeframe will be the two weeks after Chinese New Year.

SARS vs current outbreak.

While there are some similarities between the two outbreaks, we note key differences in the macro economic backdrop. When SARS broke out, global financial markets were still not completely out of the woods yet due to the dot.com bubble, and markets were still trading near bear market lows – SARS was just another blow. With the latest outbreak however, the global economy has just begun to recover after a bruising trade war between the US and China, with stock valuations having risen to levels that places it at risk of a correction in the event of a surprise shock, such as the 2019-nCoV.

We also think that the economic impact will likely be greater as a result of the wider measures that the government has taken to limit the spread of the virus, which will have the effect of curtailing manufacturing output and incomes. However, on a positive note, if the shutdowns can be contained to a few weeks, the lost output from businesses should largely be made up in the rest of 2020. The government will also likely respond with a stimulus package to ensure that the economic damage is contained.

Our base-case recommendation.

Engage stocks on weakness after February. Over the coming weeks, we expect stocks to enter a weak consolidation mode following near-term corrections, followed by a potential rebound in March. We continue to see value in precious metals such as gold and silver, while Emerging Asian currencies, commodities and commodity-linked currencies should be avoided for now.



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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.
	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.

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