

# Think Singapore

## 2014: Singapore a Relative Pick as ASEAN Consolidates

- **Catching up as ASEAN consolidates**—While the STI Index (-2% YTD through 6 Dec) has underperformed Philippines and Malaysia, there has been a degree of relative outperformance for Singapore in the past six months as the US tapering phase gets priced in. We expect this relative trade to continue into 2014. Singapore, which had been hit earlier by slower momentum as its growth model rebalanced over the past two years, is now relatively more attractive as the pace of GDP growth picks up and currency, CAD woes and politics get in the way of neighbours Malaysia, Indonesia and Thailand. We expect GDP growth of 3.5% and 4.0% in 2014 and 2015 respectively post 4.0% in 2013 and 1.3% for 2012. We are looking for mild upside for the STI in 2014 – our Gordon Growth derived STI target is 3,278, translating to a P/E of 15.6x. The STI is now trading at ~14.7 P/E, below the historical mean of 15.2x and at 1.3x fwd P/B (below -0.5SD).
- **Stay in stock-picking mode; prefer external over domestic names** — We expect stronger exports, especially to Europe, to filter in and lift Singapore's earnings, which had recently already formed a bottom post 3Q13 results. With several of Singapore's domestic segments close to peaking, we prefer stocks exposed to external drivers. Top picks - Keppel Corp (rig cycle intact despite oil price volatility); two China exposed firms, Wilmar (conduit for Asia's food needs) and CMA (robust B/S, recurring income in SG); DBS (highest NIM/earnings leverage to eventual SGD rate rises); and Keppel Land (sustainable pre-sales from China, potential divestment of MBFC Tower 3). Investors have begun reducing weights in interest-rate-sensitives given 114 bps rise in 10Y yields since mid-2013 and tapering expectations in 2014. With the US\$ strengthening, investors could focus on industrial dollar earners: **ST Eng, Venture**. Avoid **SMRT, SPH, SIA, Starhub, Cosco Corp**.
- **Risks as Singapore's household debt spikes up, SMEs/MNCs restructure, challenges from cross-linkage to the region**— Normalization of SGS 10Y yields and interest rates as US taper occurs may have an uneven impact on firms and consumers, especially those that found themselves on the short end of the curve. Singapore's household debt, led by mortgages, has already risen to 77% of GDP, putting it in *amber zone* and has led regulators to impose anti-debt measures. Credit-card rollover balances and charge-off rates have also risen, suggesting overconsumption is already an ongoing theme. Selected demographic segments may have utilized asset pledges to obtain leverage, resulting in possible overexposure to property and yield-heavy products. A rise in interest rates, rental vacancies, positive real savings rate and a more subdued job environment as SMEs here restructure could lead to reduced consumption and lower property prices as weaker hands divest. Singapore's property, tourism, wealth management and 18% of NODX are linked to the prosperity of its ASEAN neighbors (Thailand, Malaysia and Indonesia) and these economies have begun to cool.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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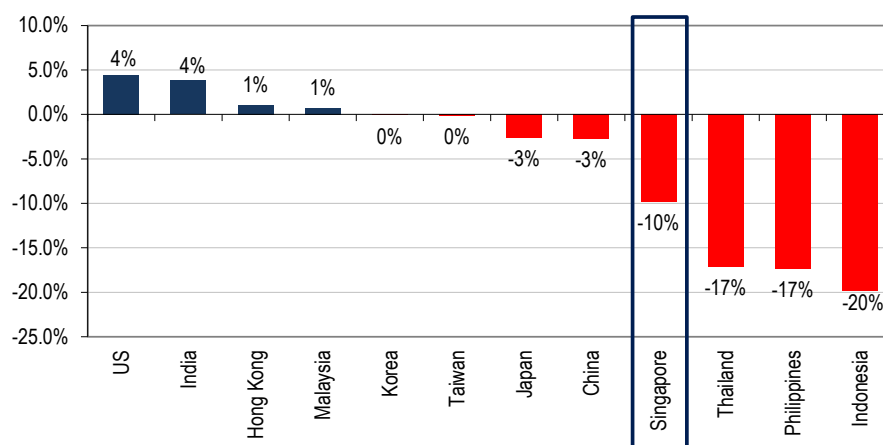
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# Rebalancing Challenges in 2014

## Catching up as ASEAN consolidates

While the STI Index (-2% YTD through 6 Dec) has underperformed Philippines and Malaysia, there has been a degree of outperformance in the past six months as the US tapering phase gets priced in. We expect this relative trade to continue into 2014. Singapore, which had been hit earlier by slower momentum as its growth model rebalanced over the past two years, is now relatively more attractive as currency, CAD woes and politics get in the way of neighbours Malaysia, Indonesia and Thailand.

Figure 1. Performance From 20 May – 6 Dec 13 (LCY) — STI vs. Key Regional Indices



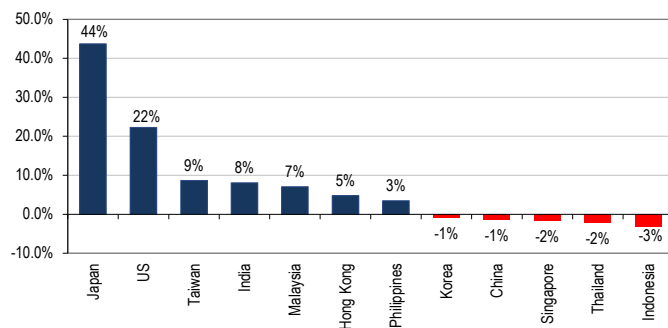
Source: Datastream, Citi Research

During the first five months of 2013, we saw ongoing re-rating of the STI valuation (+ 7%) from end 2012, as investors continue to hunt for yield stocks and REITs. Fear of the Fed tapering its QE program together with a sharp rise of Singapore's 10Y government yield since then had led to a decline in the STI Index, returning the STI PER valuation back to its long-term mean of 15.2x and subsequently to a current PER of 14.7x.

The compression in Singapore's 10Y was a key indicator that led to the hunt for yield stocks and REITs over the past two years. These names have been well-owned, with yields compressed to valuations with a peak beyond +1 s.d. in 2Q13 (see Fig 14), leading investors to rebalance away from these holdings.

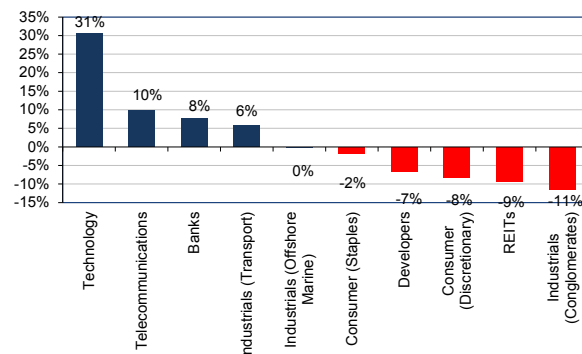
Investors have begun reducing weights in interest-rate-sensitives given a 114 bps rise in 10Y yields since mid-2013 and tapering expectations in 2014 (see Fig 9). Post trading somewhat beyond +1S.D. across two-thirds of 1H13, Singapore dividend yield plays have now returned to the mean in aggregate, be it in terms of yields or in terms of yield spread versus Singapore's 10Y government bond yield. This segment, which had helped Singapore's performance in 2H12 and 1H13, is unlikely to be seen as an outperforming segment in 2014 unless investors sharply reverse their views of a QE tapering/the US re-entering another period of macro weakness. Citi's house view is that Singapore's 10Y bond yield will be 3.0% in 2014 (2.5% currently).

Figure 2. YTD\* Performance (LCY) — STI vs. Key Regional Indices



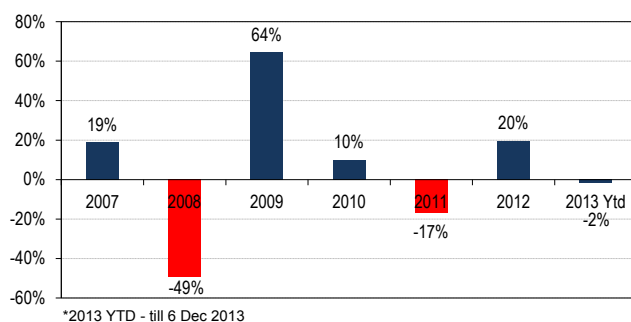
Source: Datastream, Citi Research; \*As of 06 Dec 2013

Figure 3. Singapore — Sector Price YTD\* Performance



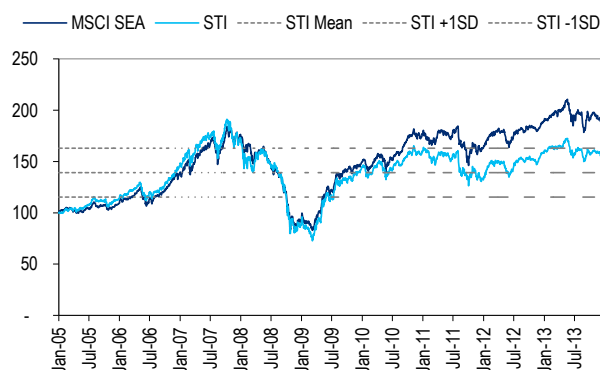
Source: Datastream, Citi Research; \*As of 06 Dec 2013

Figure 4. STI Annual Price Performance – 2007 to 06 Dec 2013



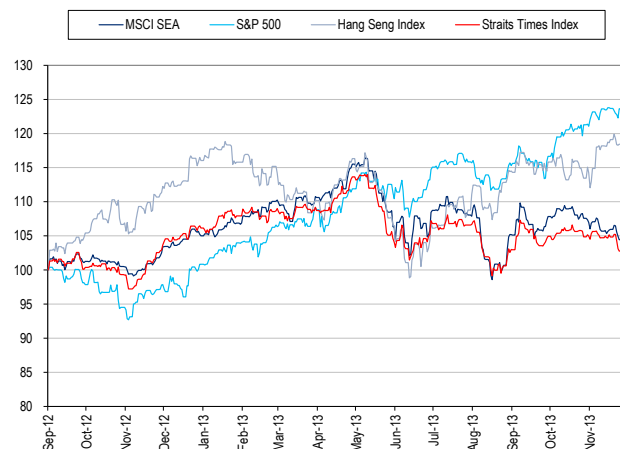
Source: Bloomberg, Citi Research

Figure 5. STI – Price Performance (=100 as of end Jan 2005)



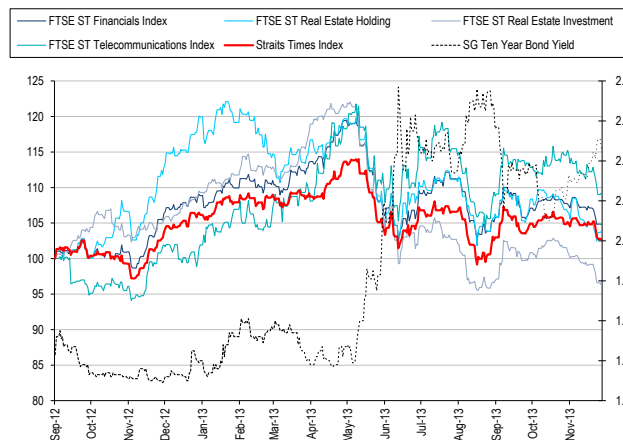
Source: Bloomberg, Citi Research

Figure 6. Performance of Indices from QE3 Announcement



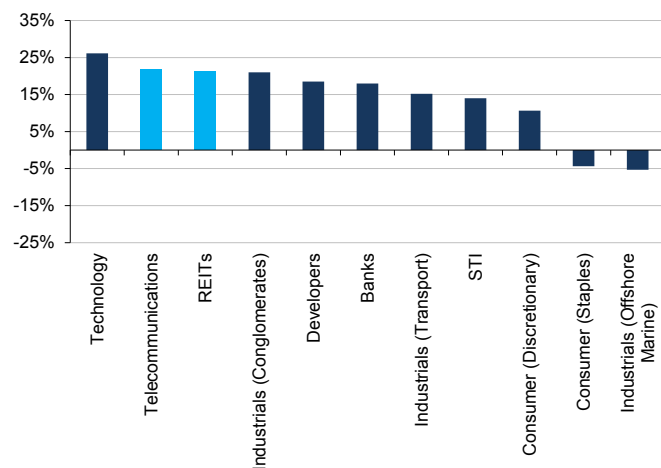
Source: Bloomberg, Citi Research

Figure 7. Performance of Yield-Sensitive Indices from QE3 Announcement



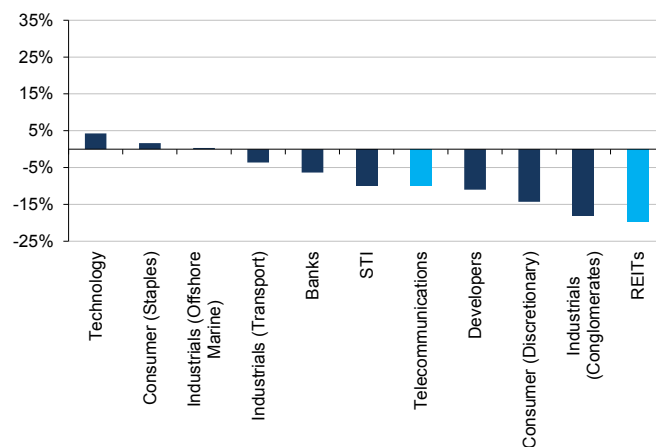
Source: Bloomberg, Citi Research

Figure 8. Sector Performance from QE3 Announcement (13 Sep 12) to 20 May 13



Source: Bloomberg, Datastream, Citi Research

Figure 9. Sector Performance from 20 May 13 to 06 December 13



Source: Bloomberg, Datastream, Citi Research

Figure 10. Singapore — Sector Price Performance (YTD and Monthly Returns Since Nov 2012)

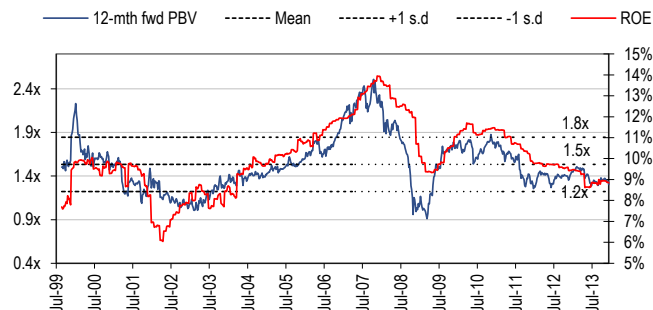
	% change (mkt-cap weighted average)															
	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	2012	2013 YTD	
STI	1%	3%	4%	0%	1%	2%	-2%	-5%	2%	-6%	5%	1%	-1%	20%	-2%	
Banks	3%	4%	-1%	2%	6%	4%	0%	-7%	7%	-6%	4%	1%	1%	28%	8%	
Developers	5%	4%	4%	-2%	-1%	2%	-3%	-3%	3%	-5%	3%	2%	-4%	50%	-7%	
REITs	1%	2%	2%	2%	0%	8%	-10%	-6%	1%	-6%	5%	3%	-5%	35%	-9%	
Consumer (Discretionary)	-2%	2%	7%	1%	0%	-2%	-1%	-6%	-2%	-8%	5%	1%	-1%	10%	-8%	
Consumer (Staples)	0%	1%	5%	-3%	-4%	-5%	2%	-4%	-3%	2%	1%	9%	4%	-19%	-2%	
Industrials (Conglomerates)	-4%	4%	5%	0%	2%	-2%	2%	-7%	-6%	-4%	3%	0%	-5%	33%	-11%	
Industrials (Offshore Marine)	-2%	2%	4%	-1%	-3%	-3%	-1%	0%	1%	-3%	5%	2%	3%	21%	0%	
Industrials (Transport)	1%	1%	6%	-1%	0%	3%	-1%	-1%	1%	-7%	7%	2%	-1%	16%	6%	
Telecommunications	3%	0%	5%	0%	4%	10%	-6%	1%	5%	-9%	5%	2%	-2%	10%	10%	
Technology	6%	2%	2%	2%	7%	4%	4%	-2%	2%	13%	-5%	-16%	15%	40%	31%	
	Outperforms STI															
	Underperforms STI															

Source: Datastream, Citi Research; \*Ytd as of 06 Dec 2013

## STI valuation close to its long-term mean as Singapore's GDP growth recovers

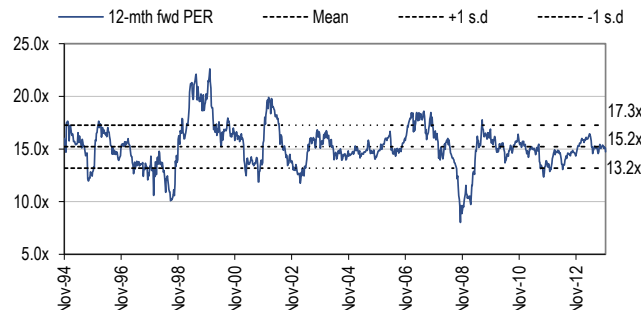
We expect GDP growth of 3.5% and 4.0% in 2014 and 2015 respectively after 4.0% in 2013 and 1.3% for 2012. Consequently, we are looking for mild upside for the STI in 2014 – our Gordon Growth derived STI target is 3278, translating to a P/E of 15.6x. The STI is now trading at ~14.7 P/E, below the historical mean of 15.2x and at 1.3x fwd P/B (below -0.5SD).

Figure 11. STI 12M Forward PB vs ROE



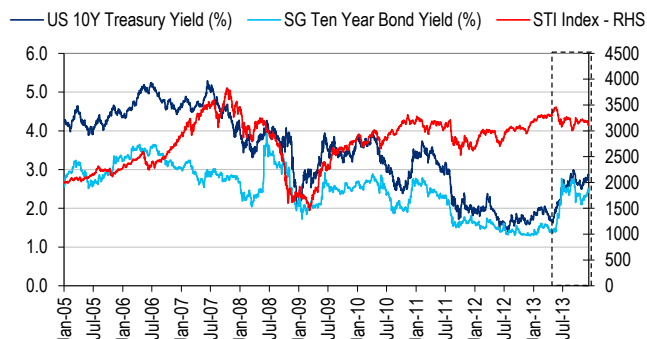
Source: Datastream, Citi Research

Figure 12. STI 12M Forward PER



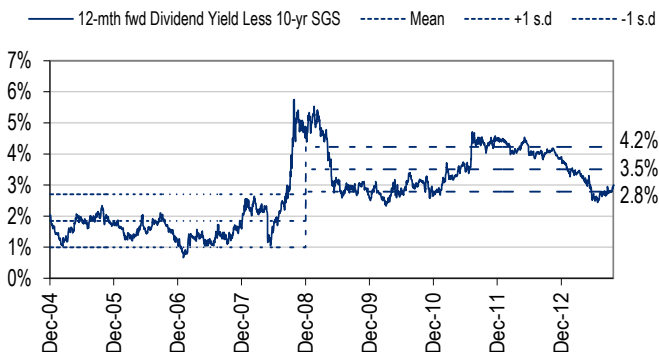
Source: Datastream, Citi Research

Figure 13. Singapore STI vs. SGS 10-Yr Bond Yield (yields have risen from record-low 1.3%) & US Treasury Yield



Source: Bloomberg, Citi Research, Datastream

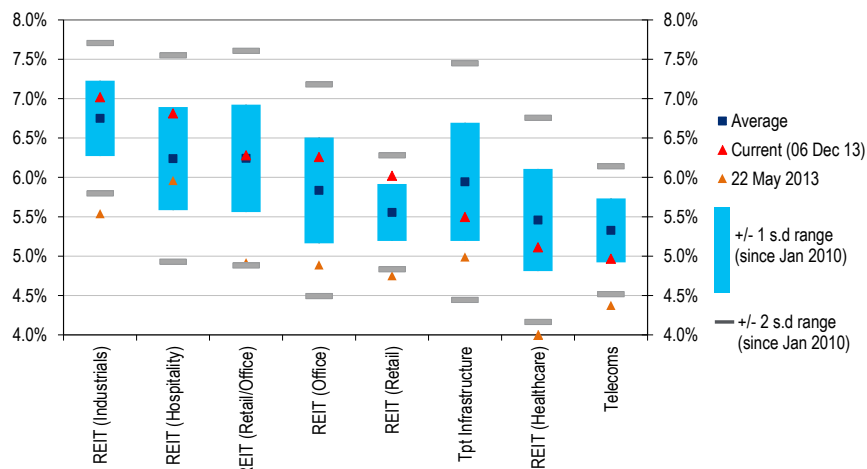
Figure 14. Singapore Div Plays — Div Yield Less SGS 10Y Bond Yield



Source: Bloomberg, Citi Research, Datastream

Across the eight sub-segments of high dividend yielding stocks we track, none now trades outside +1 s.d vs two in July and the seven segments trading significantly beyond +1 s.d, back in May.

Figure 15. SG Dividend Plays – Current Dividend Yield vs. Mean and +/- 1 & 2 s.d range (from Jan 2010 to 06 Dec 2013)\*



Source: Citi Research, Datastream \*Dividend yield calculated using consensus estimates.

## Relying on earnings growth rather than multiple expansion to power 2014

Historically, PE expansion usually drove STI returns in the year post GDP weakness as investors price in expectations of a recovery phase. Returns post this phase of valuation re-rating would be mainly driven by earnings growth – with the length of this phase impacted by relative beats or misses versus investor expectations.

After the euro crisis in 2011, we saw STI returning 20% in 2012 (GDP growth of 1.3%), mainly driven by expansion of valuation multiple near to long-term mean levels as sentiment improved. While further multiple expansion drove STI returns in 1H13, this started to reverse in 2H13 on concerns of reduced/flattish earnings estimates and taper fears, leading to a flattish STI Index performance as 2013 winds to an end. We believe STI returns would be more reliant on earnings growth in 2014, given current expectations of aggregate earnings growth of 11% in 2014 post a tepid 2% growth in 2013. Our Gordon Growth derived STI target is 3278, translating to a PER of 15.6x, which translates to a mild upside from the current level.

Figure 16. Main Driver of STI Annual Returns

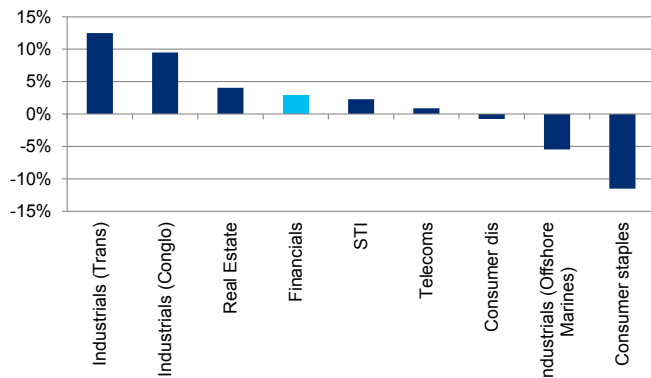
Date	Earnings Growth	PE Expansion	STI Growth	Driver (when STI was up)	Driver (when STI was down)
12/31/2001	-30%	14%	-17%		Earnings contraction
12/31/2002	25%	-30%	-20%		PE compression
12/31/2003	10%	20%	33%	PE expansion	
12/31/2004	36%	-7%	16%	Earnings Growth	
12/31/2005	12%	3%	14%	Earnings Growth	
12/31/2006	21%	15%	28%	Earnings Growth	
12/31/2007	36%	-6%	19%	Earnings Growth	
12/31/2008	-13%	-36%	-49%		PE compression
12/31/2009	18%	53%	64%	PE expansion	
12/31/2010	28%	-3%	10%	Earnings Growth	
12/31/2011	2%	-16%	-17%		PE compression
12/31/2012	7%	17%	20%	PE expansion	
12/06/2013	-1%	-3%	-2%		PE compression

Source: Citi Research, Datastream, Bloomberg

## Consumer & transport sectors could see earnings growth in 2014

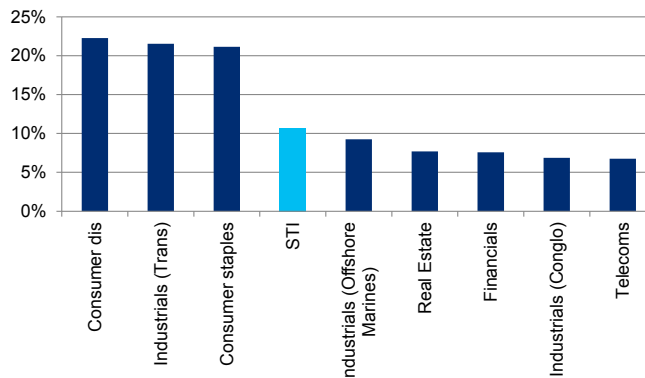
Consumer discretionary, consumer staple and transportation sectors could see earnings growth next year, contrasting with the earnings contraction seen this year. The Consumer staples sector (which includes traders – Olam, Noble & Wilmar) screen well in a growth vs valuation matrix as it starts to see earnings recovery in 2014 post cycle lows in 2013. Consumer staples, transportation and real estate developers are the three key segments that are trading below mean.

Figure 17. Earnings Growth Estimates in CY13 By Sectors



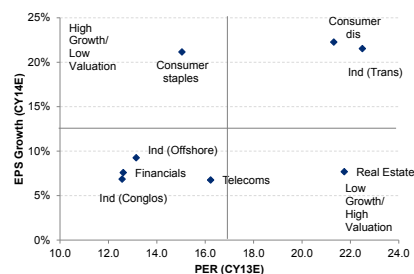
Source: Citi Research estimates

Figure 18. Earnings Growth Estimates in CY14 By Sectors



Source: Citi Research estimates

Figure 19. Growth vs Valuation Matrix



Source: Citi Research, dataCentral

### The cycle is different for agri traders in 2014

Unlike the previous cycle, when we saw a sharp expansion of valuation multiple immediately post GFC among the traders (Olam, Noble and Wilmar), we have yet to see a significant valuation re-rating of traders (flat in 2012 and low-single digit growth YTD) post 2011, a year when investors were concerned over EU and a potential double-dip, as they delivered unimpressive earnings trends over the last two years.

Wilmar grappled with a challenging oilseeds division in 2012 on depressed operating margin due to oversupply issue. Noble's agriculture division was impacted by logistical issues in Brazil, a poor oilseeds crush margin and gestating agricultural assets. Olam had to deal with the impact of taxes from high tax jurisdictions and combating allegations from short-sellers.

As we move into 2014, we believe investors would start looking into these names and consider improving weightings from underweight back to a more neutral position. Expectations that better execution alongside reduced balance sheet leverage and earnings recovery should help drive investor interest. Earnings growth and further re-rating for these traders could potentially drive stock returns. Wilmar is our top pick within this space as it has displayed a steady recovery pattern in its oilseeds business and could be a beneficiary of increasing demand from Indonesia for biodiesel.

Figure 20. Main Driver of Trading Companies Annual Returns

Trading coys	MV Growth	Earnings Growth	PE expansion	Driver (when MV was up)	Driver (when MV was down)
12/31/2008	-49%	37%	-63%		PE compression
12/31/2009	162%	48%	77%	PE expansion	
12/31/2010	4%	16%	-10%	Earnings growth	
12/31/2011	-21%	6%	-26%		PE compression
12/31/2012	-22%	-22%	0%		Earnings contraction
12/06/2013	-2%	-4%	2%		Earnings contraction

Source: Citi Research, Datastream; MV refers to market value. Growth is calculated based on aggregate market values and earnings of the trading companies.



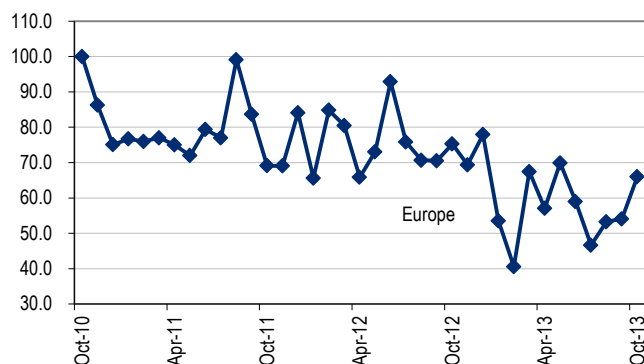
## Singapore export recovery contingent on US and euro-area demand

Export recovery to Europe, Singapore's second-largest trading partner, presents upside in 2014 as these nations recover from deep recessions. While Singapore's exports bottomed in early 2013, the uptick has been tepid due to cost, labor woes and caution on restocking inventory back to normal levels.

On a broader scale, exports from Singapore, bar a few months in early 2012, have generally been weakening in the past few years, with much of it being contributed by continued weakness in exports to the US and Europe. Unlike past recessions where geographical export trends were more uniform, exports to the US and Europe have lagged significantly this cycle and declined to a low approximately 60% lower versus levels in Oct 2010 in early 2013.

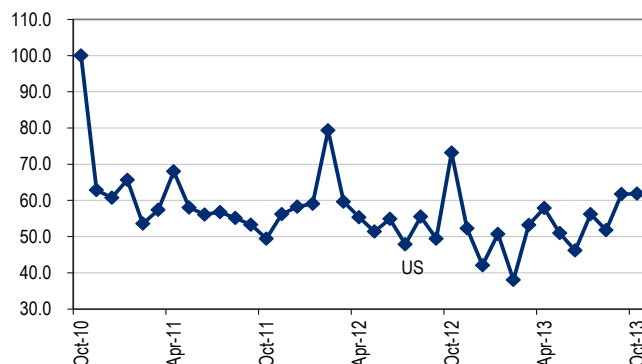
Year-to-date by October, we have seen exports to US and Europe recover 63% from the low in Feb 13 even though they are still meaningfully off levels we saw in late 2010. We thus note with interest the recovery in the export momentum to Europe in the past few months, a trend which we have not observed in recent years.

Figure 21. SG Exports to Europe (Rebased to 100 as of Oct 2010)



Source: CEIC, Citi Research

Figure 22. SG Exports to United States (Rebased to 100 as of Oct 2010)



Source: CEIC, Citi Research

## Singapore NODEX Trend by Region — Performance in Past Downturns

Figure 23. 2000 to 2001 (Rebased to 100 as of Oct 2000)

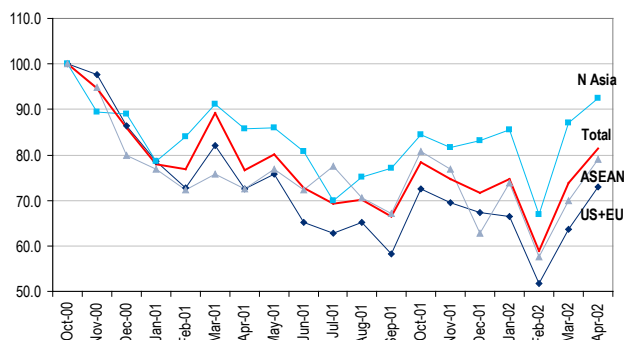


Figure 24. 2008 to 2010 (Rebased to 100 as of Apr 2008)

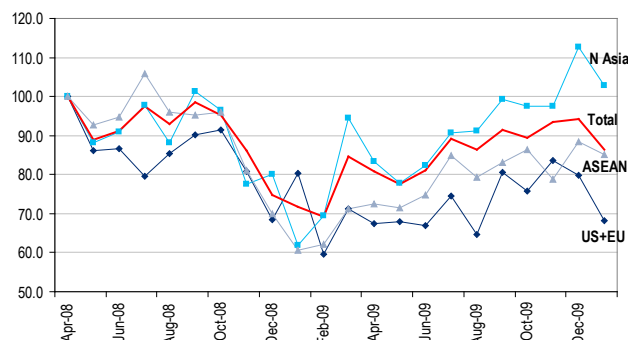
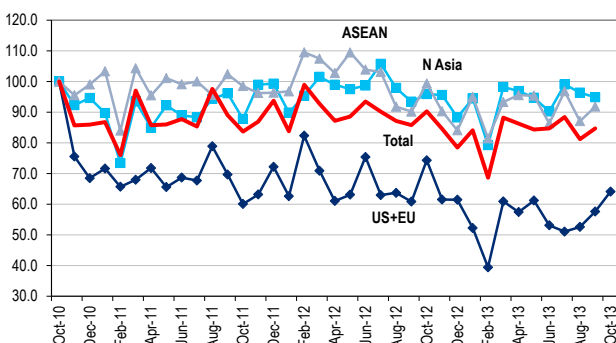


Figure 25. 2010 to 9M13 (Rebased to 100 as of Oct 2010)



Source: CEIC, Singstat, Citi Research

Figure 26. Singapore NODEX – Top Ten Destinations

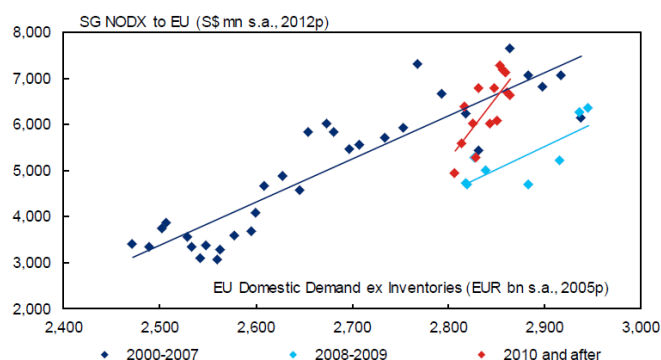
	2000	2005	2012	2013 Jan-Oct
1	USA (25%)	EU (19%)	EU (15%)	China (13%)
2	EU (18%)	USA (14%)	China (12%)	EU (11%)
3	M'sia (13%)	China (10%)	USA (9%)	HK (10%)
4	Japan (9%)	M'sia (9%)	HK (9%)	USA (9%)
5	Taiwan (6%)	Indonesia (8%)	M'sia (8%)	M'sia (7%)
6	HK (6%)	HK (7%)	Indonesia (7%)	Indonesia (6%)
7	Thailand (4%)	Japan (7%)	Japan (6%)	Japan (6%)
8	China (4%)	Taiwan (5%)	Taiwan (6%)	Thailand (4%)
9	S. Korea (3%)	Thailand (4%)	S.Korea (5%)	S.Korea (4%)
10	Australia (2%)	S. Korea (3%)	Thailand (4%)	India (3%)

\*Figures in brackets denote share of total NodeX

Source: CEIC, Singstat, Citi Research

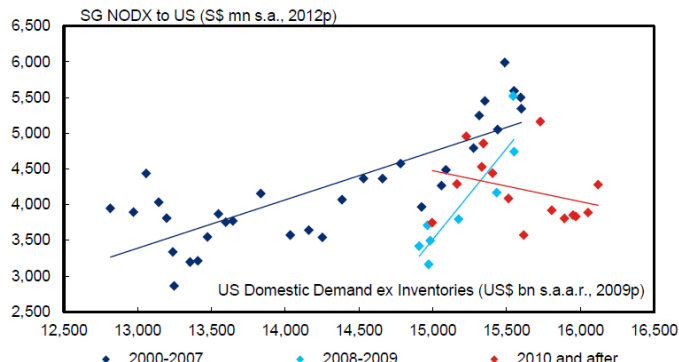
US equity strategist, Tobias Levkovish, has noted that, based on preliminary analysis on the Citi US technology sector coverage universe, tech capex could expand double digits in 2014 vs mid single-digits in 2013 (refer to: Tobias' [Capital Investment Gets a Bit Less Energetic](#)). Demand from the EU could also improve as it emerges from recession. Citi's Singapore economist, Kit Wei Zheng, believes that an anticipated G3 demand recovery could provide a boost to Singapore's exports although he notes that the spillover effect could be less pronounced than in the past due to eroding market share of Singapore's exports (refer to Kit's [Prospects 2014: Confronted by Cross Currents](#)).

Figure 27. Singapore's Exports to EU vs. EU Domestic Demand



Source: Citi Research, CEIC; The chart is reproduced from Kit Wei Zheng's Prospects 2014: Confronted By Cross Currents

Figure 28. Singapore's Exports to US vs. US Domestic Demand

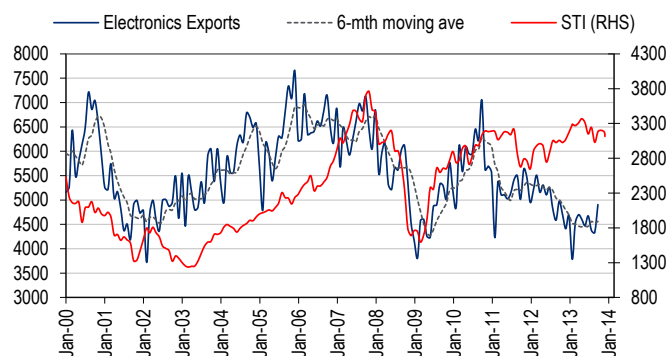


Source: Citi Research, CEIC; The chart is reproduced from Kit Wei Zheng's Prospects 2014: Confronted By Cross Currents

## Tracking recovery through electronics exports

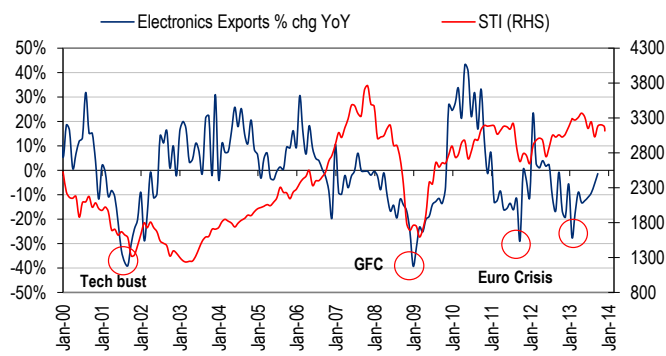
Electronic exports, Singapore's largest export category, remain the key indicator to track, as this has historically led Singapore's GDP and stock-market cycle. While Singapore's electronics exports have not been strong YTD, from a "bottoming" perspective, Singapore's electronics exports' low in 1H13 of S\$3.8bn in February 2013 (-27% yoy) and 10.5% below the previous trough in February 2011 is meaningful in that the level of decline is similar to the -30% YoY decline recorded in Nov 2011, the weakest point during the euro crisis. Year to Oct 2013, Singapore's electronics exports trend has been S\$45.0bn, equivalent to a decline of 11% YoY. At its weakest point, Singapore's electronics exports growth declined to -40% YoY during 2001's tech bust as well as during the GFC. A bottom in electronics exports has historically led GDP and stock-market recovery cycles.

Figure 29. Singapore Electronics Exports (\$mn) vs STI



Source: CEIC, Citi Research

Figure 30. Singapore Electronics Exports % Chg YoY vs STI



Source: CEIC, Citi Research

While we would have been typically encouraged by bottoming trends in Singapore's electronics exports since 1H13, weak data among some of Singapore's competitors in Asia generated concerns that the recovery momentum remains patchy overall. Investors also become concerned in mid-2013 by deviations between HK's and China's export datasets.

Historically, Singapore's exports datasets have led China's during turning points. Risks from slower export growth in China could escalate and dampen Singapore's exports momentum should it persist, as China has overtaken the EU as Singapore's largest export market (non-oil) this year; China accounts for 13% of Singapore's exports year-to-date versus the EU's 12%. In comparison, the EU was Singapore's largest export market (non-oil) destination in 2011, accounting for 15% of exports.

## Key Asian Export Trends — YoY Change (%)

Figure 31. China



Figure 32. Hong Kong

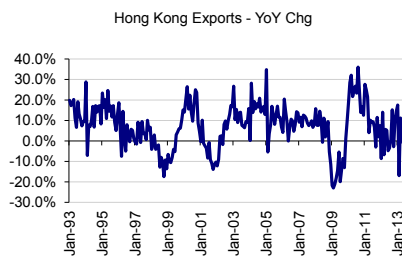


Figure 33. Korea



Figure 34. Taiwan

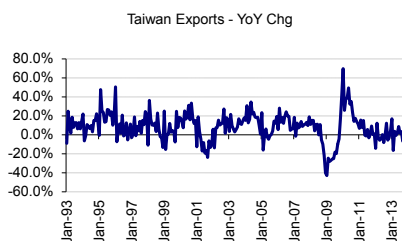


Figure 35. Singapore

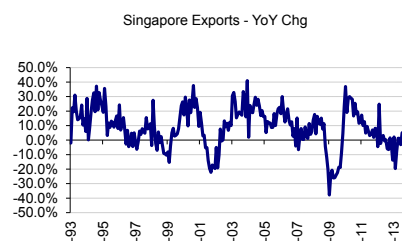
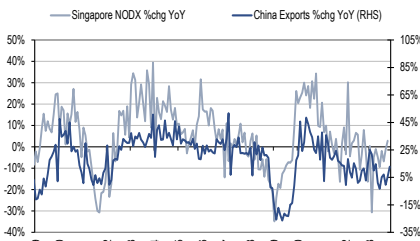


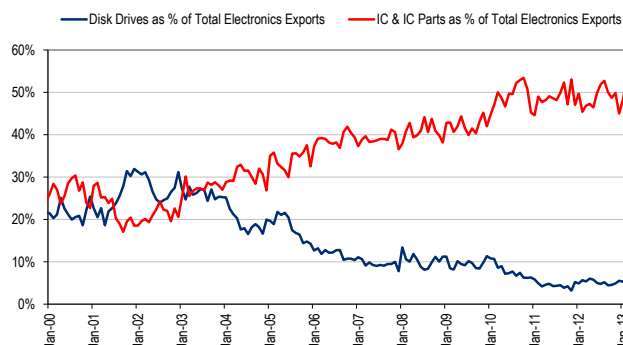
Figure 36. Singapore NODX vs China Exports



Source: CEIC, Citi Research

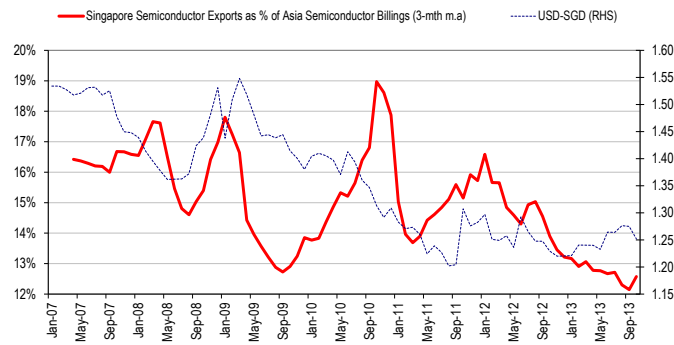
It is key to note that Singapore's electronics exports have significantly changed in mix, with semiconductors and parts of semiconductors making up 54% of total electronics exports now vs 27% a decade ago (contributions from disk drives have fallen from 25% a decade ago to 4% now). While Singapore was a global leader in the assembly of disk drives, it is a smaller participant in the realm of semiconductors manufacturing, with Singapore likely accounting for only 12-13% of semiconductors billings in Asia. While there are likely multiple factors at work, Singapore's share of the Asian semiconductor market declined in 2012, which seems to track the relentless strength of the S\$ last year.

Figure 37. Disk Drives and Semiconductor Parts as % of Total Electronics Exports



Source: CEIC, Citi Research

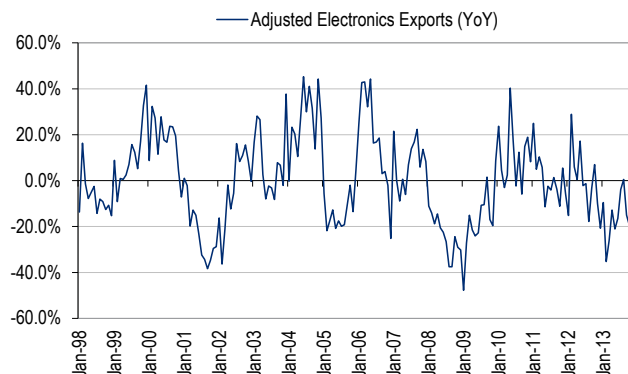
Figure 38. Singapore Semiconductor Exports as % of Asia Semiconductor Billings



Source: World Semiconductor Trade Statistics, Citi Research

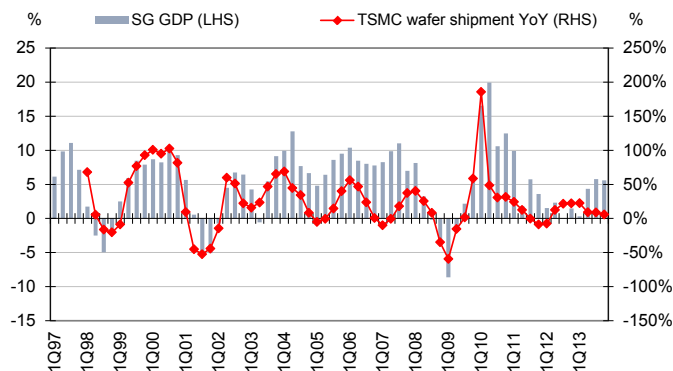
Recent conversations with electronics exporters suggest that orders for 2H13 remained patchy, and only a shade better than 1H13 levels. Customers in the electronics industry continue to be “inventory” cautious and pressured by end-product mix changes. Citi’s Taiwan semiconductor analyst Roland Shu believes that TSMC November sales should be the trough level in the near term. This corroborates our view that there has been some level of recovery in the semiconductors segment across 2H13 and into 2014.

Figure 39. Singapore’s Industrial Electronics Exports\* (YoY Growth)



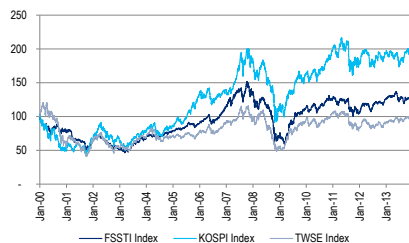
Source: Citi Research; Refers to electronic exports less disk drives, IC & IC parts and PC & PC parts

Figure 40. Singapore's GDP Growth vs. TSMC Wafer Shipment



Source: Citi Research, Datastream, Company Reports

Figure 41. Correlation in Equity Markets for Export Driven Countries (SG, Korea, Taiwan)



Source: Citi Research, Bloomberg

Historically, performance of Singapore equity market was correlated with performance of equity markets in Taiwan and Korea, which, like Singapore, are export-driven economies.

## Prefer stocks exposed to external drivers

We prefer stocks exposed to external drivers as domestic Singapore faces many factors with its domestic segments close to peaking.

These factors, together with the risk of household debt unwinding (see [Think Singapore: Households Held to Ransom by Debt](#)), point to a plateauing domestic environment.

Top picks: Keppel Corp (rig cycle intact despite oil price volatility), two China-exposed firms, Wilmar (conduit for Asia's food needs, and now, part of Indonesia's energy needs) and CMA (robust B/S, earnings anchored by recurring income in Singapore), DBS (highest NIM/earnings leverage to eventual SGD rates rises) and Keppel Land (sustainable pre-sales from China, potential divestment of MBFC Tower 3).

Investors have also begun to reduce weights in interest-rate-sensitive segments given 114 bps rise in 10Y yields since mid-2013 and tapering expectations in 2014.

Looking at past performance when Singapore exports to Europe recovered, stocks such as Keppel Corp, Sembcorp Marine, ST Engineering, and DBS tend to be beneficiaries.

**Figure 42. Stocks Which Tend to Outperform Post Bottoming of SG's NODX to EU (3M Rolling Basis)**

Three Months Period	Six Months Period
Keppel Corp	Sembcorp Marine
Sembcorp Marine	SIA Engineering
ST Engineering	DBS
Singapore Exchange	UOB
DBS	HK Land
UOB	
Capitaland	
HK Land	
CDL	

Source: Citi Research; We identified four periods when SG's NODX to EU bottomed on a 3M rolling basis- i) Nov 2001, ii) May 2005, iii) April 2009 and iv) December 2011. Stocks are mentioned when they performed better than median for at least three of the four periods.

## Risks as Singapore's household debt spikes, SMEs restructure, challenges from cross-linkage to the region

Normalization of SGS 10Y yields and interest rates may have an uneven impact on firms and consumers. The challenge for Singapore next year continues with *Vox Populi* – e.g. stricter labour laws and rising wage pressures as the economy's rebalancing phase continues. Singapore's first riot in 40 years in Little India brings to fore some of the simmering pressures that has led to pressure for firms utilizing foreign labour in Singapore. A rise in interest rates, real estate vacancies, a positive real savings rate and a more subdued job environment as SMEs here restructure could lead to reduced consumption and lower property prices as weaker hands divest.

Singapore's household debt, led by mortgages, has already risen to 77% of GDP, putting it in the amber zone, and has led regulators to impose anti-debt measures. Credit-card rollover balances and charge-off rates have also risen, suggesting overconsumption is already on an ongoing theme. Selected demographic segments may have utilized asset pledges to obtain leverage, resulting in possible overexposure to property and yield-heavy products.

## Unwinding debt at households

Since May, Singapore 10Y government bond yields have risen to ~2.5%, almost 114bps higher than the record low of 1.3% in 2012. The normalization of SGS 10Y yields and expectation of higher interest rates may lead to an uneven impact on companies and consumers. Singapore household debt, led by mortgages, has spiked to 77% of GDP, similar to levels recorded before the Asian Financial Crisis nearly two decades ago. The largest increase in household debt levels has come from mortgages with financial institutions (FI), with FI mortgages accounting for 60% of total household liabilities versus 51% in 1Q10.

Figure 43. Household Debt as % of GDP

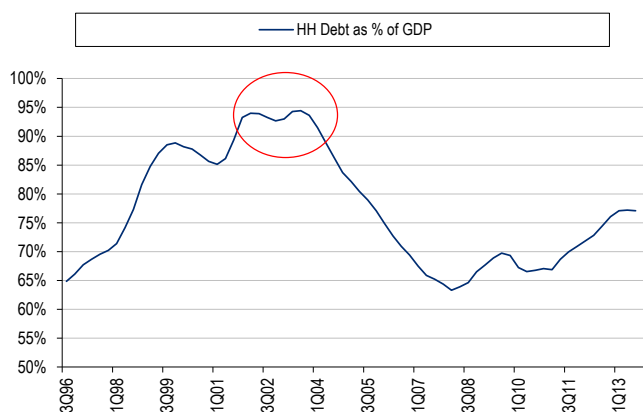
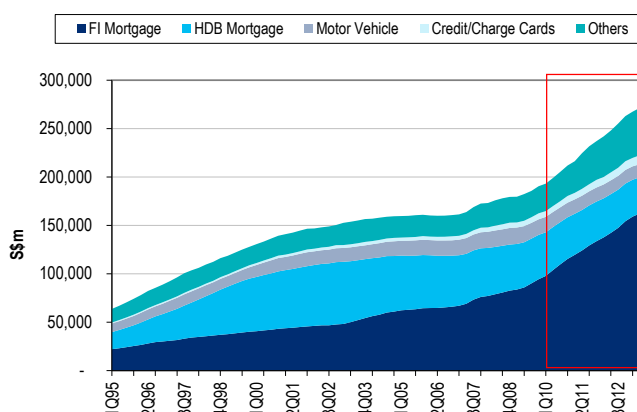


Figure 44. Largest Increase in Household Debt From FI Mortgages



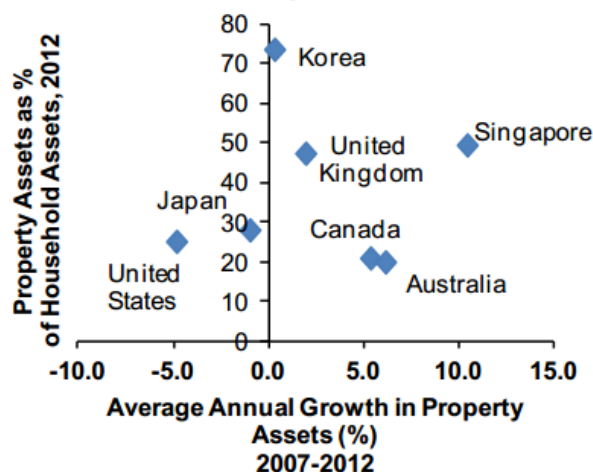
Source: CEIC, Citi Research, MAS

Household debt is in the amber zone, which led regulators to push out anti-debt measures. MAS' Total Debt Servicing Ratio Framework (TDSR) or Singapore's 8<sup>th</sup> Round of Property Cooling Measures announced 28 June points to concerns from the authorities and the need to moderate further debt rises. It takes on a more holistic perspective in an attempt to moderate the use of debt among Singapore's households and consumers. This new framework requires financial institutions to take into account borrowers' other outstanding debt obligations when granting a property loan (new or refinancing) such that the TDSR ratio does not exceed 60%, based on the higher of the prevailing market interest rate or 3.5% for residential properties (4.5% for non-residential). Citi property analysts Adrian Chua and Ivan Lim's detailed thoughts on the impact of this measure on the Singapore's property sector and the follow measure on the HDB segment can be found in [8<sup>th</sup> Round of Measures: Reinforcing the Ring Fence](#) and [Additional Measures Announced for Public Housing Market](#).

Interestingly, Singapore's household debt relative to GDP ratio is now similar to levels recorded by Malaysian households back in 2010 (75% household debt relative to GDP in mid-2010, 83% currently) – which similarly triggered the Malaysian government to launch measures to rein in further debt additions. Malaysia's Responsible Lending Guidelines framework in early 2012 led to the debt service ratio (DSR) of civil servants there being capped at 60%.

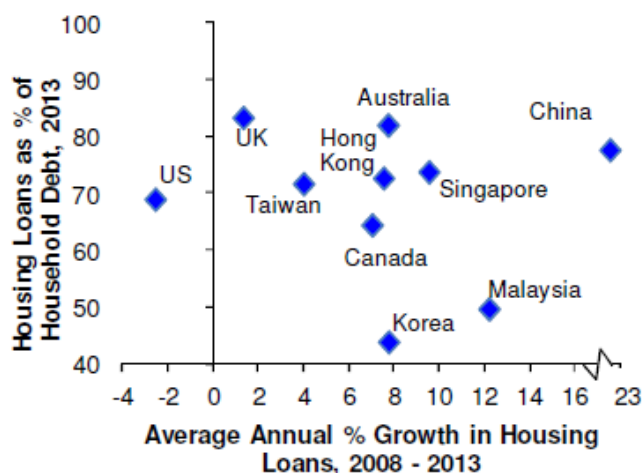
This has become a watch point among investors and will likely rise given peak level of property completions in the next three years. Still, these ratios at the peak have been closer to 90-95% in the past as well and remain broadly in line in comparison to other major countries. Based on MAS' observations, while about half of Singapore households' assets are in property, second only to Korea, Singapore recorded higher growth in property assets between 2007-12.

Figure 45. Cross-Country Comparison of Property Assets



Source: MAS estimates, national statistical agencies, Japan Cabinet Office  
Latest available estimates were used where 2012 data were not available.

Figure 46. Cross-Country Comparison of Housing Loans



Source: MAS estimates, CEIC, Datastream, national statistical agencies, central banks  
Note: Latest available estimates are used when 2013 data are not available.

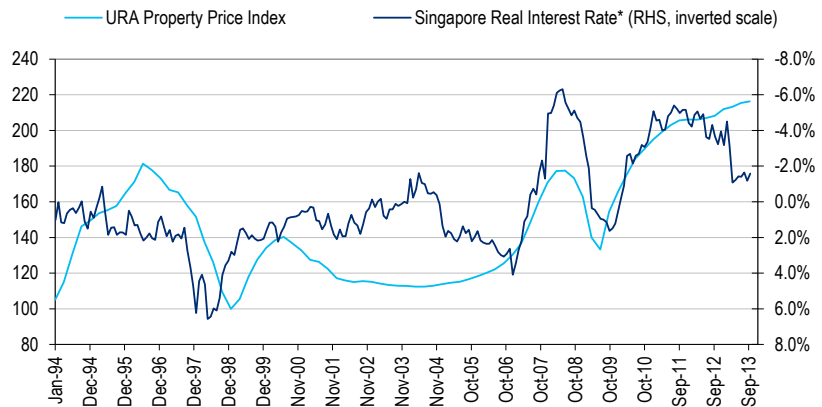
Source: MAS Financial Stability Review, November 2012 and December 2013

Asset prices in Singapore have surged post the GFC, buoyed by low interest rates/negative real savings rates.

Adrian and Ivan expect private residential prices to be weaker over the next 12 months, a reflection of the challenging medium-term outlook given the rise in supply over the next 2-3 years. A rise in interest rates, a positive real savings rate (as inflation cools/normalize), a rise in vacancies or a more subdued jobs environment as SMEs restructure part of their operations out of Singapore could lead to lower property prices and reduce consumption as weaker hands divest. Historically, lower asset prices have led to constrained returns for the STI.



**Figure 47. URA Property Index vs Singapore Real Interest Rate. Real Interest Rates heading back closer to parity as inflation pressures normalise**



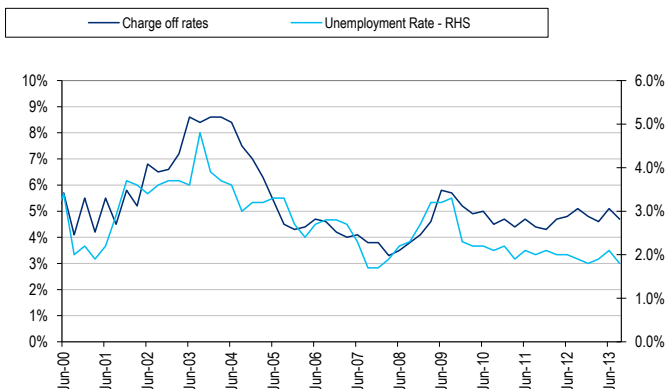
Source: URA, Datastream, Citi Research

The introduction of the TDSR framework in late June had impacted volumes of primary sales of private properties in 3Q13 (2,430 units transacted, -46% QoQ).

We believe the TDSR framework will stem access to credit despite still-low interest rates, especially for older individuals that may have assets but have already seen peak income levels.

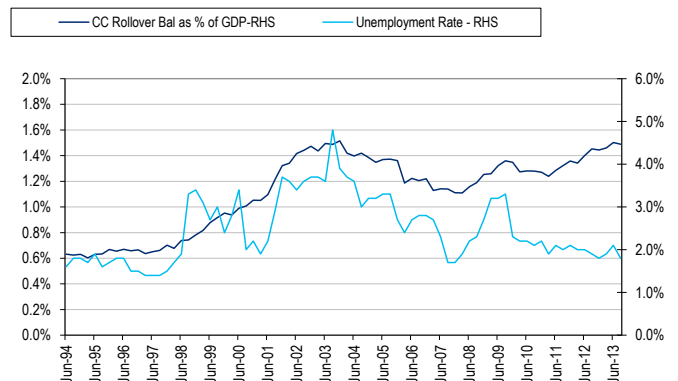
While the discussion above hints of risks from overinvestment, we are looking with interest into the theme of overconsumption. Interestingly, we note that credit card rollover balances as % of GDP and charge-off rates reached 1.5% and 4.7% as of end 3Q13 respectively (1.5% and 5.1% as of end 3Q12 respectively). MAS Financial Stability Report from Dec 2013 cites a range of charge-off rate of 4-5% since 2010. Credit cardholders who are in the 30-49 age bracket represent the group with the largest portion with credit card balances rolled over (41% of users in this age group roll over their balances versus 31% in the other age groups). The stability report also cites data from Credit Counselling Singapore which reveals that the average outstanding debt owed by individuals seeking credit counseling has risen by 15% (from S\$69.6k to S\$79.7k) over the last four years.

**Figure 48. Charge-off Rate vs. Unemployment Rate**



Source: Citi Research, CEIC, MAS

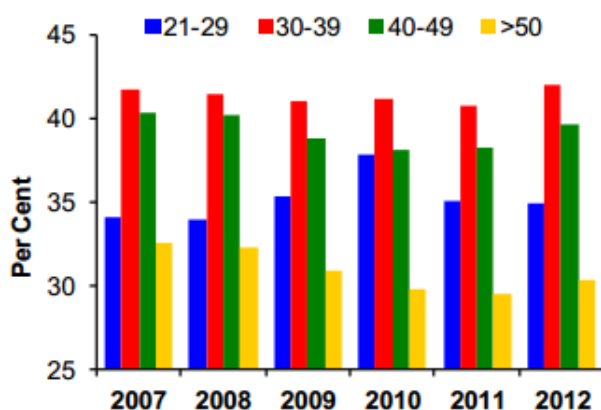
**Figure 49. Credit Card Rollovers as % of GDP vs. Unemployment Rate**



In 3Q13, we had asked ourselves which is the most vulnerable consumer segment in Singapore as the prospects for higher interest rates increase? Is it the group with a high percentage of credit card balances being rolled over (i.e. overconsumption) or is it the peak income group (between 45-54 for those with diplomas, professional qualifications or degrees (i.e. overinvestment) the most vulnerable when interest rates eventually normalize?

Using data from Singapore's Credit Bureau, we found it surprising that debt levels rise with age, even though incomes generally peak when one is about 50 years old. We believe that selected demographic segments (e.g. seemingly older individuals above 50 and with assets that can be pledged) may have greatly utilized personal loans/asset pledges to obtain more leverage, resulting in possible overexposure to certain asset segments and income generating financial instruments via spread trades (see Figure 51).

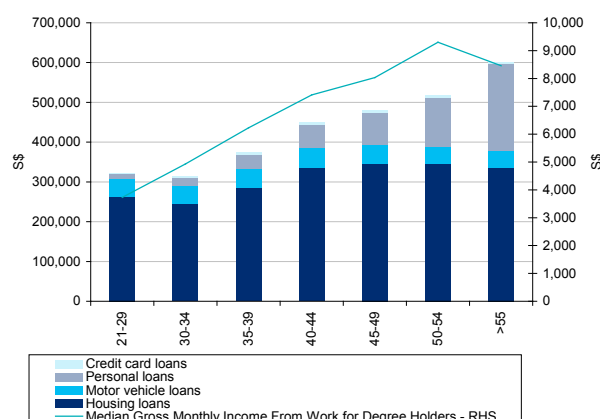
Figure 50. Credit Cards — % of Each Age Group that are Revolvers#



Source: Citi Research, CEIC, MAS Financial Stability Review November 2012, Ministry of Manpower

Note: #Revolvers refer to credit cardholders who do not pay in full their outstanding credit card balances.

Figure 51. Relative Size of Loans for Each Age Groups



Source: Citi Research, Credit Bureau; The graph depicts the relative size of the four major types of loans (using average loan value for each loan type) for each age group. Note that an average individual may not be exposed to all four types of loans. The median gross monthly income for degree holders excludes employer CPF and sample only includes full-time employed residents, as of June 2012. For age group between 21-29, median income for degree holders aged 25-29 is used. For age group >55, median income for degree holders aged 55-59 is used.

## Challenges as SMEs restructure

We saw adjustments to the Dependency Ratio Ceiling (DRC) after the announcement of more restrictive labour laws during Budget 2013, as Singapore continues its move to reduce its reliance on (foreign) manpower growth and drive productivity growth. Non-citizens now account for more than a third of Singapore's population vs a quarter in 2000 (Ministry of Manpower (MOM) disclosed that, as of Dec 2011, two-thirds of the non-resident population ex-foreign domestic workers) were work-pass holders.

SMEs had seen some impact from the stricter labor law with MoM disclosing that there had been 19k appeal cases pertaining to S pass and work-permit renewals from SMEs since 2010 (with slightly less than half being considered favorably).

Figure 52. Summary Table on DRC Changes

Sector	New quota	Old quota	Comments
Manufacturing+	No change	60%	(was 65% pre 2012's budget)
Services	40%	45%	(was 50% pre 2012's budget)
Services - S Pass Sub-DRC	15%	20%	
Construction	No change	88%	
Process	No change	88%	
Marine*	78%	83%	

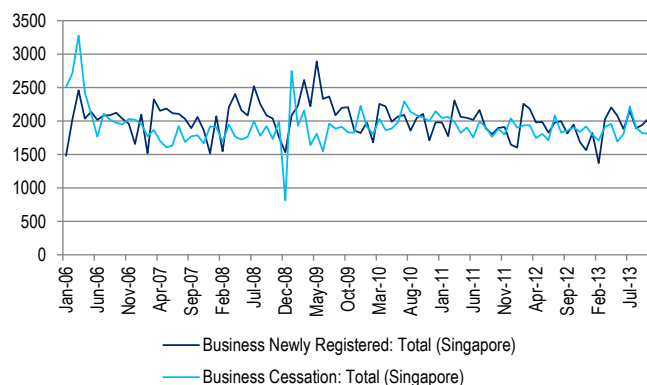
Source: Ministry of Manpower, Singapore Budget Statement, Citi Research

\*Change will take place in two stages, in Jan 2016 and Jan 2018

+ Manufacturing which has taken hits on labour allocations last year was spared this time.

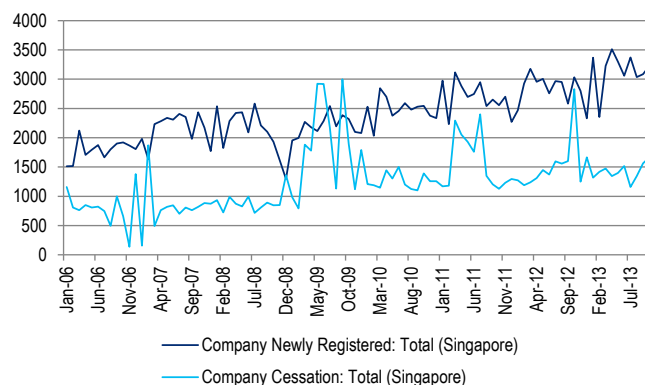
Our conversations with SME leaders indicate that SMEs could find it harder to expand and meet rising orders in the tight labor market. SME jobs (90% of all enterprises, two-thirds of employment) could be at risk if Singapore's aggressive productivity push fails to deliver results quickly. Nonetheless, we have continued to see stable business/ company registrations and cessations, hinting that the impact of SME restructuring has not been so severe that it results in a tipping point for Singapore's economy.

Figure 53. Singapore Business Registrations and Cessations



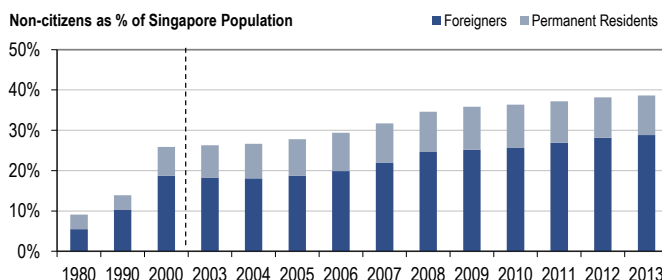
Source: Citi Research, CEIC; Business refers to a business firm operating either as a sole-proprietorship or partnership and may be set up by individuals or companies.

Figure 54. Singapore Company Registrations and Cessations



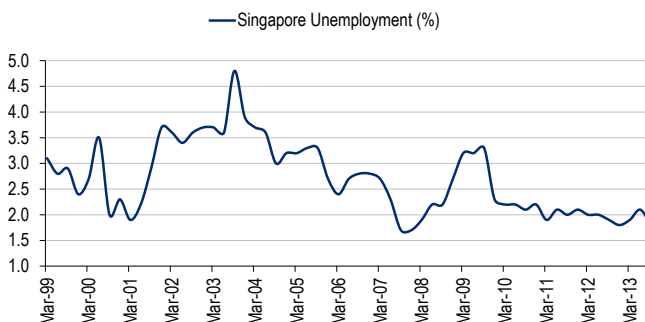
Source: Citi Research, CEIC; Company refers to a business entity registered under the Companies Act, Chapter 50 and has a legal personality.

Figure 55. Non-citizens now account for >35% of population vs. 25% in 2000



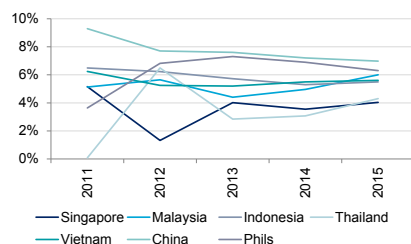
Source: Citi Research, Singstat

Figure 56. Singapore unemployment remains low reflecting a tight labour market



Source: Citi Research, CEIC

Figure 57. Citi GDP Growth YoY Forecasts



Source: Citi Research, dataCentral

Apart from domestic push for productivity growth, SMEs are also vulnerable to slowing economies within the region. Based on survey by DP Information group, between a third and half of Singapore SMEs have revenue exposure to Malaysia, Indonesia, China/HK, Thailand, Vietnam and Philippines in 2012. Ongoing economic weakness in Indonesia, Thailand and Philippines and slower growth in China could also dampen SME top lines if local demand weakens consequentially.

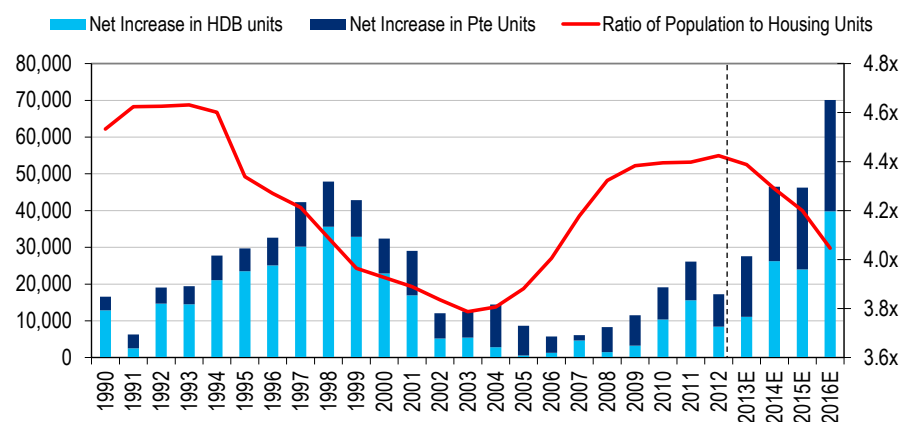
## Singapore's cross-linkages to the region a challenge

Singapore's property, tourism, wealth management and 18% of NODX are linked to the prosperity of its ASEAN neighbors (Thailand, Malaysia and Indonesia) and these economies have begun to cool.

While negative news on the US and Europe has moderated, concerns have started to rise for ASEAN. Based on marketing feedback from Indonesia property and consumer teams, investors are generally concerned that macro volatility in Indonesia could raise the risk of a consumption slowdown, although they are still positive on the long-term consumption story (refer to [Indonesia Property Marketing Feedback](#) and [Indonesia Retail Marketing Feedback](#)). There have also been renewed concerns on China, especially on liquidity costs and a slower growth trajectory. Tourists from Indonesia we spoke to now see Singapore as very expensive, given the sharp depreciation in the rupiah.

Singapore's residential property segment (and post eight rounds of property cooling measures and including several steps that discouraged foreigners' purchases) has already started to see volume moderations, with overall volumes sold in 1H13 declining 25% HoH. The Citi Property team, led by Adrian Chua, remains cautious on Singapore Residential given the oncoming pipeline supply from 2014.

Figure 58. Ratio of Population to Housing Units



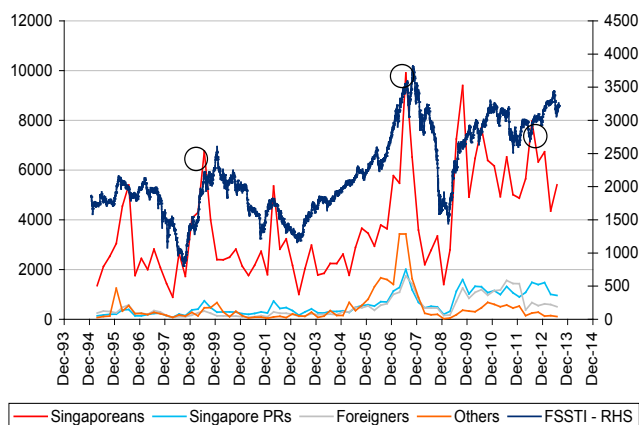
\*1995 - 44,891 private housing units built before 1974 were included as part of housing stock

Source: Citi Research, CEIC, MND

Singaporeans accounted for 75% of the private property purchases (ex EC) during the recent four quarters (3Q12-2Q13). This compared with pre-GFC in 2007 when Singaporeans accounted for 57% of the property purchases. As foreign property buyers, ASEAN neighbors such as Malaysia and Indonesia have traditionally featured strongly here, though the Indonesian lead has been overtaken by the Chinese in recent years (see Fig 60).

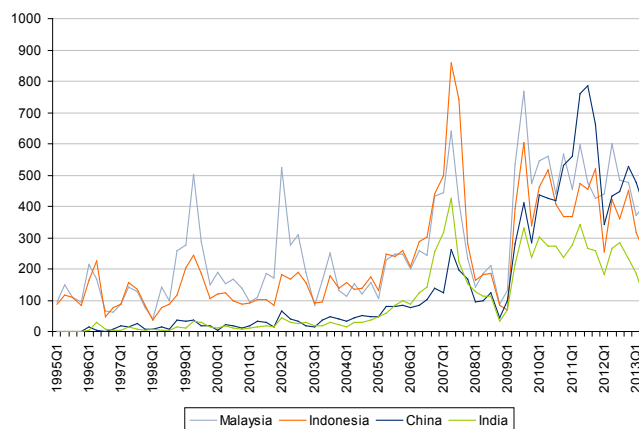
While peaks in property volumes sold have typically led Singapore's STI peaks in the past, this has been less useful in 2012, perhaps due to QE-related distortions (see Fig 59).

**Figure 59. Breakdown of Number of Private Properties – Ex ECs Sold (By Residential Status)**



Source: Citi Research, Bloomberg, URA; Based on quarterly data

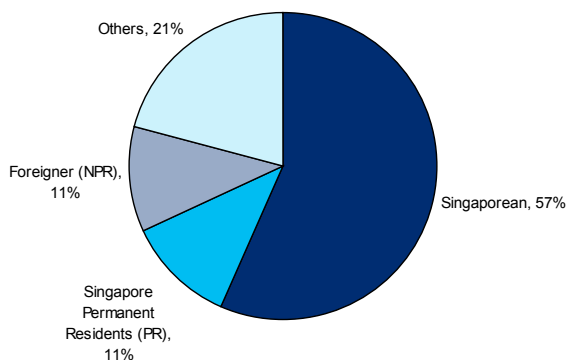
**Figure 60. Number of Private Properties – Ex ECs (For MY, ID, CN & IN)**



Source: Citi Research, URA; Based on quarterly data

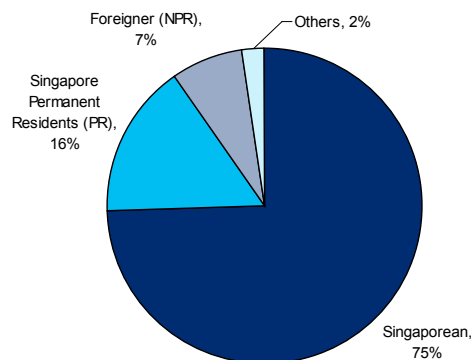
Legend: MY-Malaysia, ID-Indonesia, CN-China, IN-India

**Figure 61. Breakdown of Number of Private Properties – Ex ECs Sold in 2007 (By Residential Status)**



Source: Citi Research, URA

**Figure 62. Breakdown of Number of Private Properties – Ex ECs Sold During Recent Four Quarters (3Q12-2Q13, By Residential Status)**



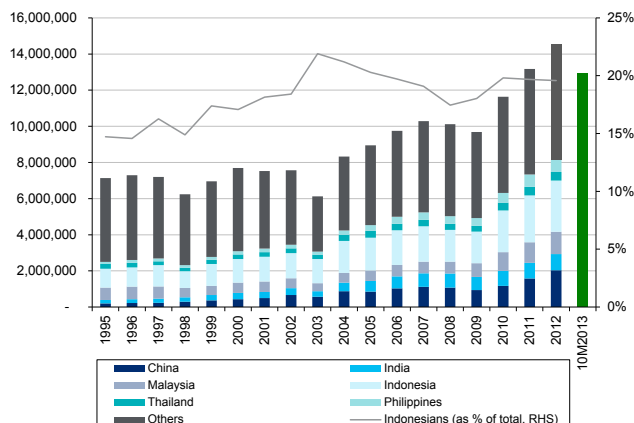
Source: Citi Research, URA

ASEAN neighbors feature strongly as visitors to Singapore's tourism industry which hosted 14m visitors in 2012, with visitors from Indonesia topping the visitor list (c.20% of total), followed by those from China, Malaysia, Australia and India. Similarly, in terms of tourism receipts, visitors from Indonesia were the top contributors, followed by visitors from China, India, Australia, Japan and Malaysia.

During past economic downturns, we have observed that a larger decline of tourist arrivals from the ASEAN 4 (Malaysia, Indonesia, Thailand and Philippines). During the Asian Financial Crisis, tourist arrivals from ASEAN 4 declined 20%, which was more than the 13% decline for total tourist arrivals. Similarly, during the GFC, arrivals from ASEAN 4 declined 6% vs a 2% decline for total tourist arrivals.

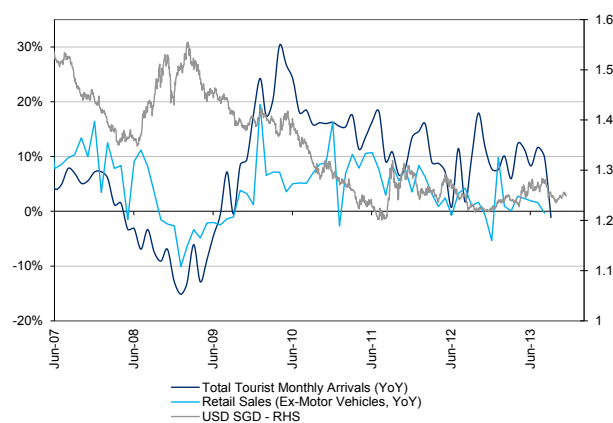
Growth in retail sales has been moderating since 2010 alongside the slowdown in visitor arrival growth, perhaps dampened by the strengthening Singapore dollar.

Figure 63. Breakdown of Tourist Arrivals into Singapore



Source: Citi Research, CEIC; No breakdown by nationalities is available for 10M 2013 tourist arrivals

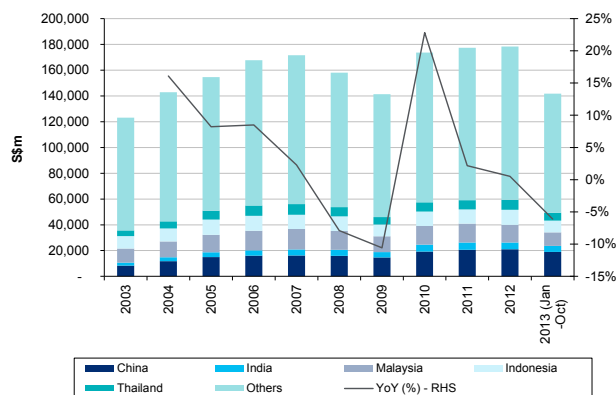
Figure 64. Monthly Tourist Arrivals (YoY) & Retail Sales (Ex. Motor Vehicles, YoY) vs USD SGD Exchange Rate



Source: Citi Research, CEIC, Bloomberg

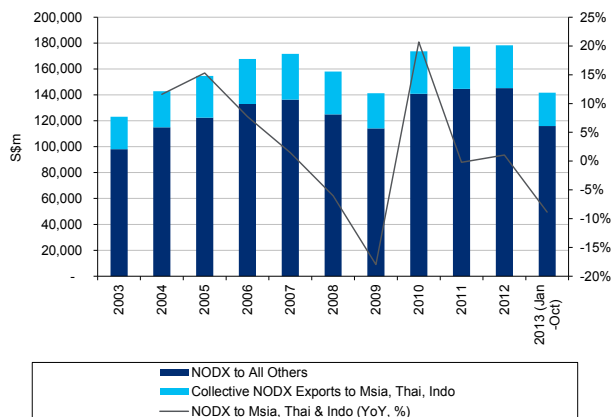
ASEAN neighbors also feature as some of Singapore's key trade partners, with Malaysia, Indonesia and Thailand amongst the top ten. During the GFC, collective non-oil exports (NODX) to Malaysia, Thailand and Indonesia fell by 18%, higher than the -11% decline for NODX in 2009.

Figure 65. Singapore NODX by Country



Source: Citi Research, CEIC

Figure 66. Singapore NODX to ASEAN vs All Others



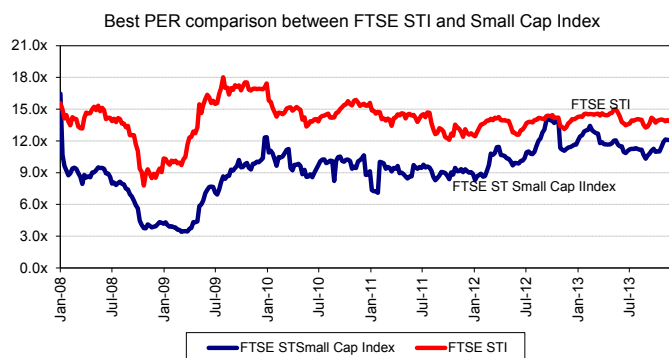
Source: Citi Research, CEIC

## Volatility & Risk Measures

The bout of volatility in May and June had already led to a more subdued risk appetite, and August's rout dampened investor risk appetite even further, with the STI declining 6% in the month. While there was a positive rebound across 4Q13, it was not enough to turn 2013 into a positive year for the STI. This reduced risk appetite persisted on continued concern of Fed tapering. Aggravating the situation was a reduced small cap focus since the huge price declines among a few small cap counters which took place in early October. Oct & Nov average turnover was S\$1.0bn (-19% YoY over the same period). This is comparable to the low of S\$1.1bn in average turnover in May and June 2012, when risk aversion was at its peak last year. Average daily turnover on the Singapore exchange year-to-date is at S\$1.4bn, a 12% rise vs the same period in 2012, aided by a 32% YoY improvement in 1H13.

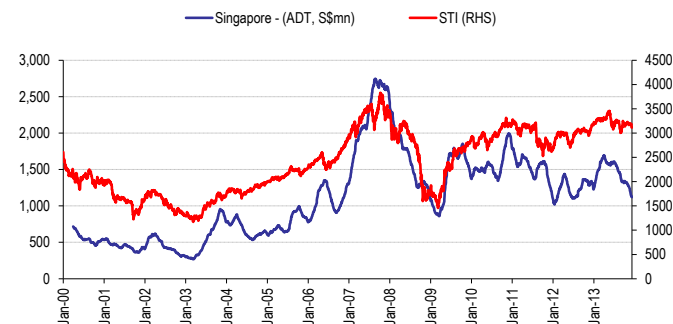
We believe foreign ownership of Singapore-listed stocks (total equity market cap of c.S\$960bn as of end 3Q13) is significant. As of end 3Q13, Singapore households own c.S\$134bn of listed shares and unit trusts/investment funds and c.S\$838bn of property assets (property assets represent slightly half of households' total assets).

Figure 67. Price-Earnings\* Comparison between FTSE STI and FTSE Small Cap Index



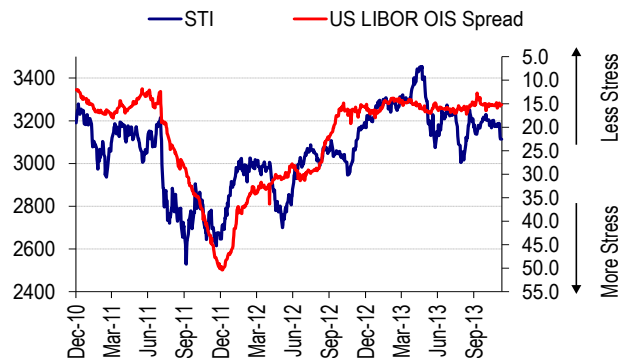
Source: Bloomberg, Citi Research; \*Based on Bloomberg consensus estimates

Figure 68. Singapore Average Daily Turnover\* (\$\$mn) vs. STI



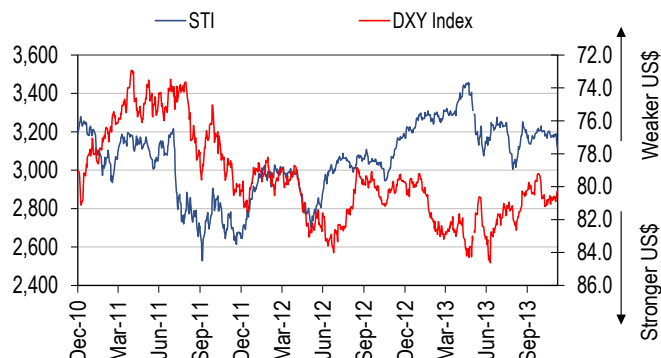
Source: Bloomberg; Based on rolling 3-month average

Figure 69. Singapore STI vs US LIBOR OIS Spread



Source: Bloomberg, Datastream, Citi Research

Figure 70. STI vs. DXY Index



This year, volatility from 2Q13 has tracked the CDS spreads of selected ASEAN countries (Malaysia, Thailand, Indonesia and Philippines).

Figure 71. STI vs Average CDS Spread of Selected European Countries

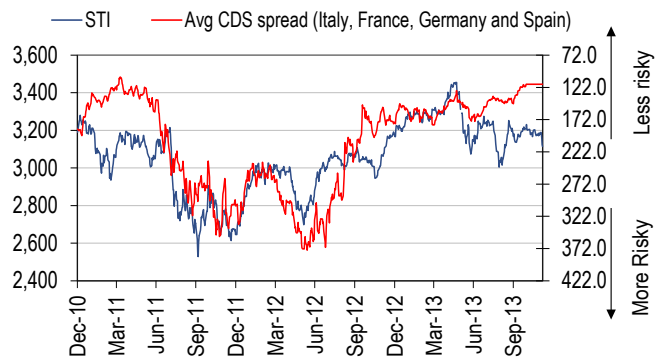
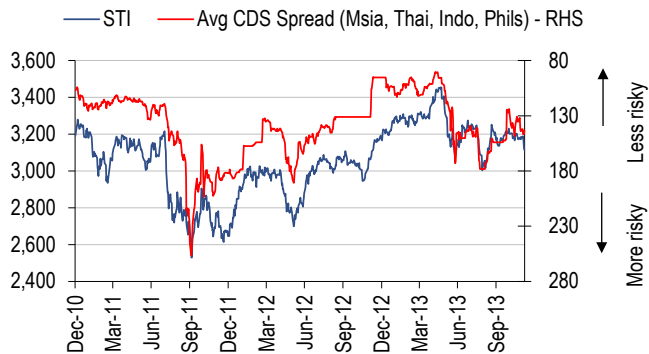


Figure 72. STI vs Average CDS Spread of Selected ASEAN Countries



Source: Bloomberg, Citi Research



## Earnings Revisions – Summary Charts

Figure 73. STI — Consensus FY13E & FY14E Net Income Trends

- Consensus has revised down FY14E's net income estimate by 15% since June 2012 (FY13E net income estimates has been revised down by 23% since June 2011)

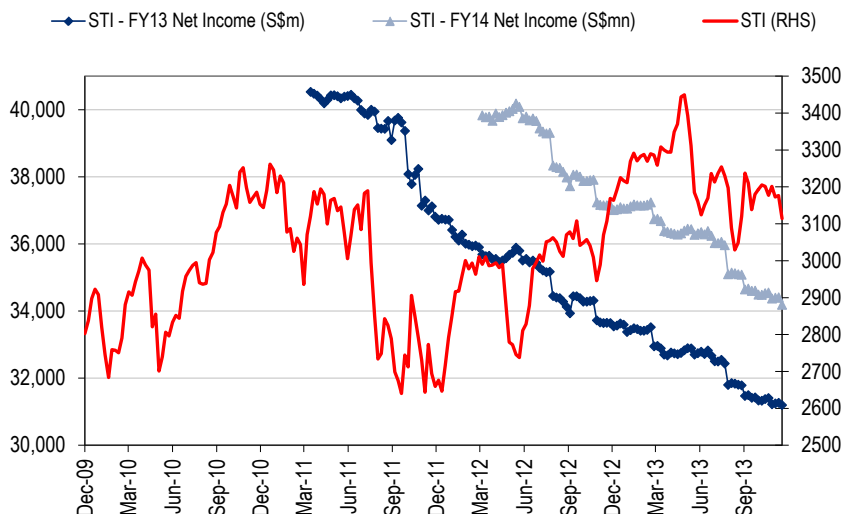


Figure 74. STI — Consensus FY09 Net Income Trends

- From 2008 to 2009, consensus earnings forecasts for FY09 fell by almost 35% from peak to trough.
- Investors historically have discounted the last 20-25% in negative earnings revisions for the cycle.

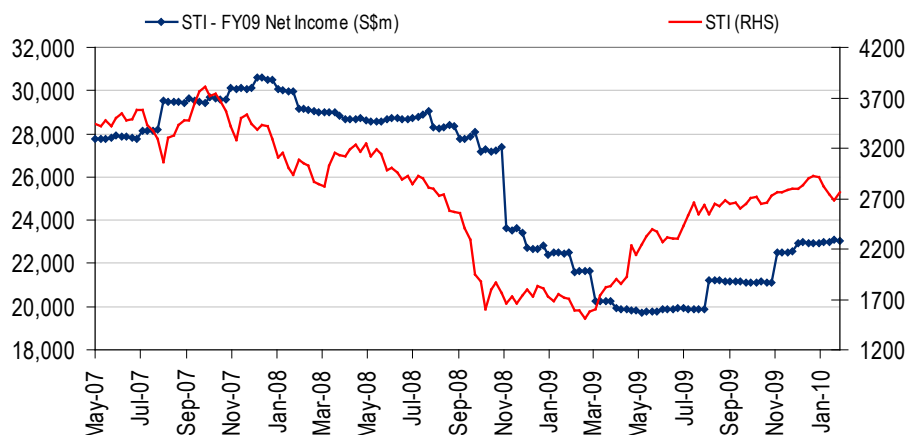
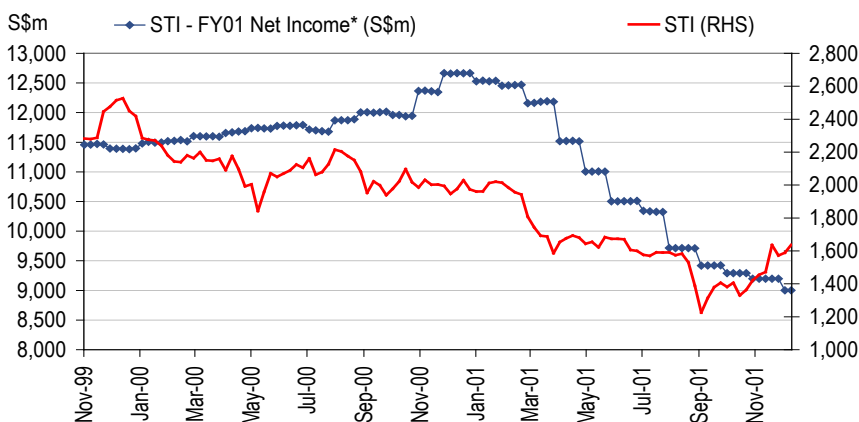


Figure 75. STI — Consensus FY01 Net Income Trends

- From 2000 to 2001, consensus earnings forecasts for FY01 fell by about 25%.
- Investors historically have discounted the last 20-25% in negative earnings revisions for the cycle.

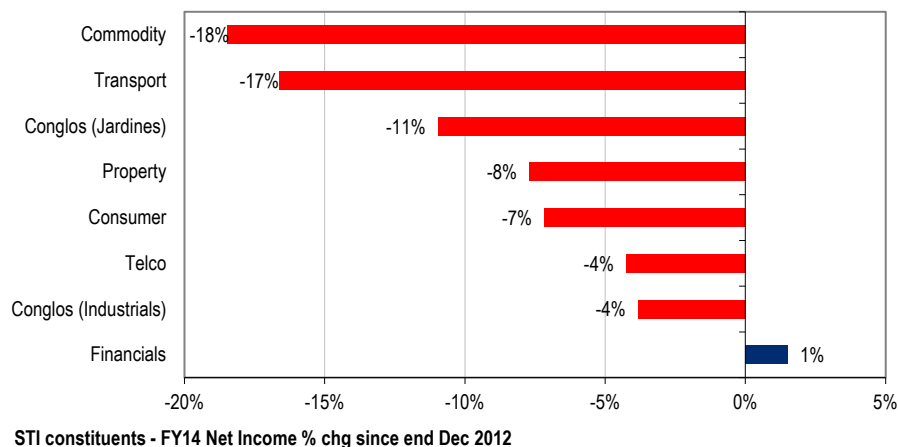


\*Based on the top 25 constituent companies which accounted for 85% (by index weight) of the old STI index

Source: Datastream, Citi Research

Figure 76. STI — FY14E Earnings % Change (By Sector)

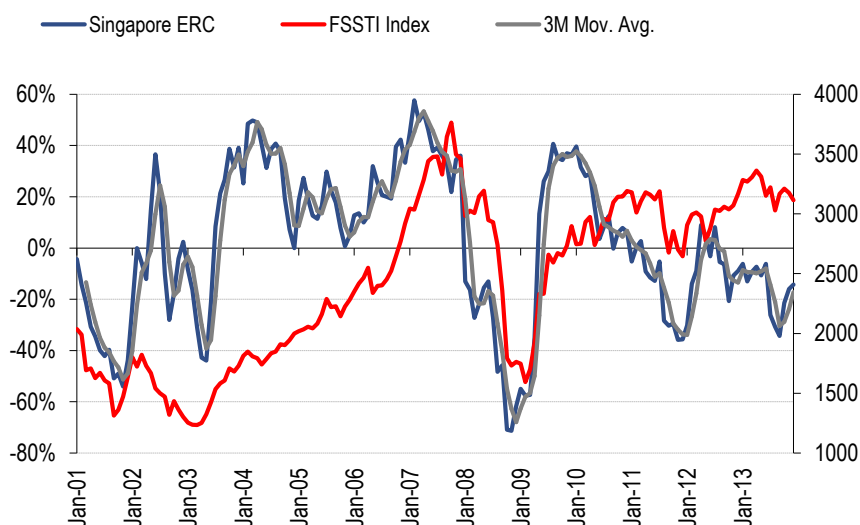
- Downward revisions to FY14 earnings estimates since end 2012 have been broad-based with substantial cuts primarily concentrated in the Commodity, Transport and Conglos (Jardines).



Source: Datastream, Citi Research

Figure 77. Singapore — Earnings Revision Count (ERC) Chart

- The Earnings Revisions Count ratio (or the upgrade vs downgrade count) had started to improve post 3Q13 results to -14% (contrasting the trend post-2Q13 when the ratio declined deeper in negative zone to -31% vs. -7% at the end of June).
- Earnings normalization, with earnings upgrades perhaps exceeding downgrades, is a phase that needs to take place for investors to cement in expectations of a better 2014.



Source: Factset, Datastream, Citi Research

Figure 78. Singapore — EPS Growth by Sector

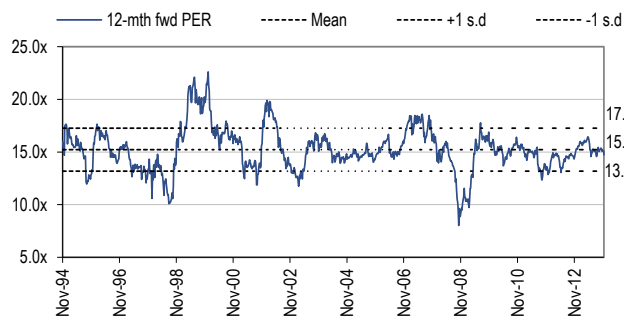
- EPS growth expectation for CY14 is 9%, similar to Philippines' 8% and Malaysia's 9%. Indonesia and Thailand are expected to grow better at 12% and 13% respectively.

EPS Growth	CY07	CY08	CY09	CY10	CY11	CY12	CY13E	CY14E
Commercial Banks & Other Financial Services	19%	-18%	4%	16%	-1%	27%	-4%	7%
Industrials (Conglomerates)	26%	7%	22%	22%	2%	-1%	10%	7%
Industrials (Offshore Marine)	59%	0%	19%	20%	4%	-1%	-11%	6%
Industrials (Transport)	6%	220%	-46%	60%	-28%	-12%	8%	19%
Consumer Staples	70%	60%	-3%	-6%	3%	-19%	-7%	21%
Consumer Discretionary	-20%	61%	14%	82%	13%	-11%	10%	16%
Real Estate	63%	-37%	12%	25%	-6%	-6%	-11%	10%
Telecommunications	5%	-9%	7%	0%	-1%	-1%	1%	7%
Technology	33%	-6%	-37%	16%	-24%	6%	-2%	11%
Utilities & Others	137%	62%	24%	14%	-31%	-20%	8%	21%
<b>TOTAL</b>	<b>23%</b>	<b>-4%</b>	<b>5%</b>	<b>18%</b>	<b>-2%</b>	<b>2%</b>	<b>-2%</b>	<b>9%</b>

Source: Citi Research

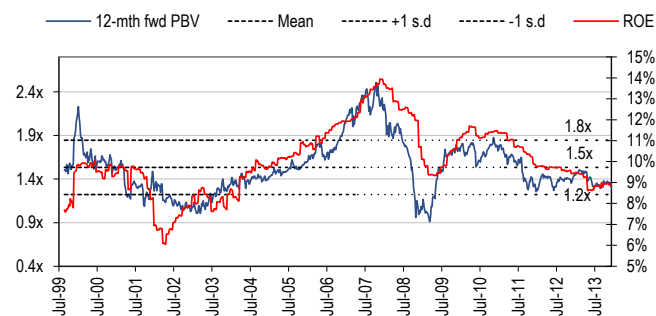
## Valuation & Growth Indicators

Figure 79. Historical 12M Forward STI PER



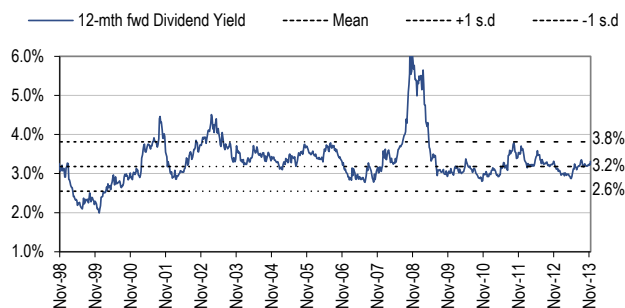
Source: Citi Research

Figure 80. Historical 12M Forward STI PBV vs ROE



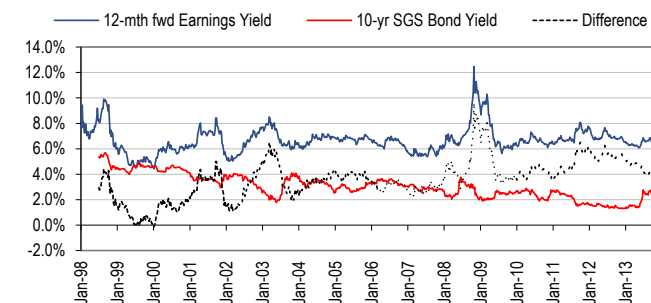
Source: Citi Research

Figure 81. Historical 12M Forward Dividend Yield



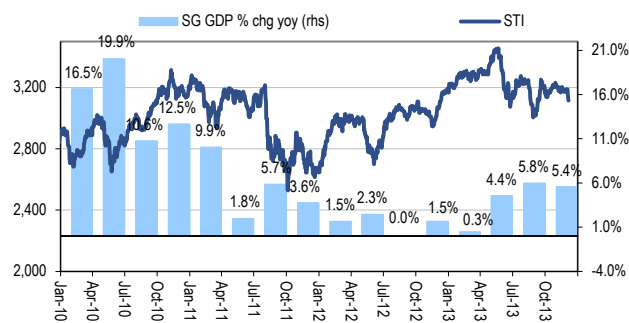
Source: Citi Research

Figure 82. 12M Forward STI Earnings Yield vs SGS 10Y Bond Yield



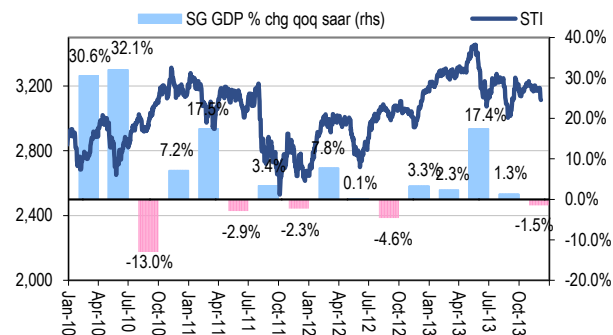
Source: Citi Research

Figure 83. STI vs GDP YoY trends



Source: CEIC, Citi Research

Figure 84. STI vs GDP QoQ SAAR trends



Source: CEIC, Citi Research

Figure 85. Changi Airport — Passenger and Cargo Traffic

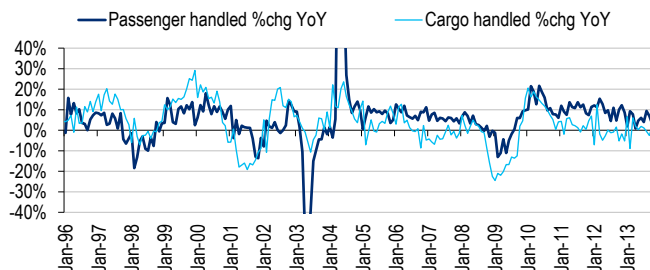


Figure 86. MPA — Sea Cargo Handled (% Chg YoY)

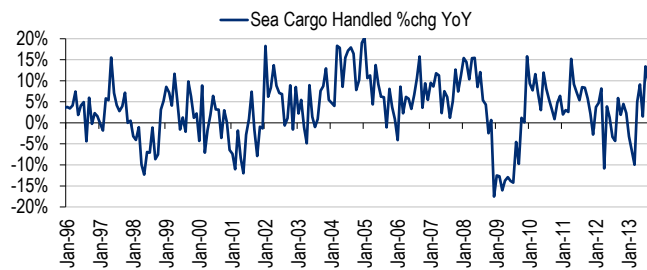


Figure 87. Singapore Tourist Arrivals (% Chg YoY)

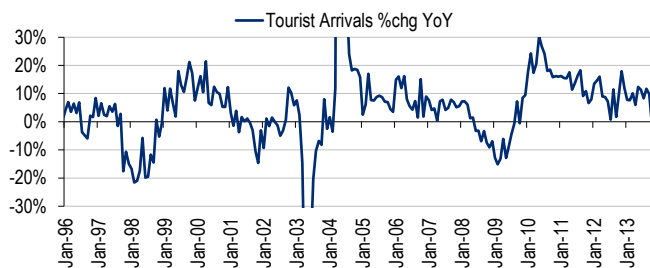


Figure 88. Hotels Average Room Rate and Occupancy

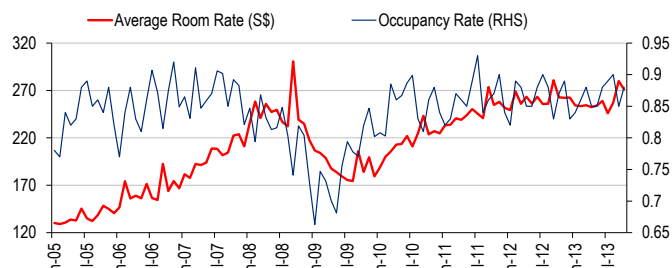


Figure 89. SPH Quarterly Revenue from Print Advertising

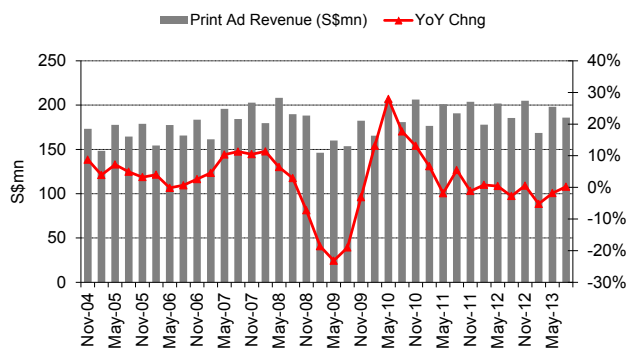
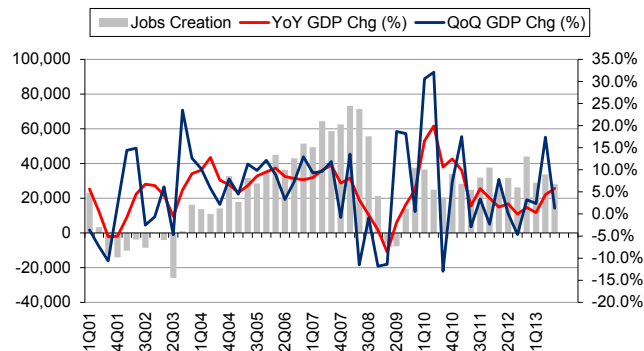


Figure 90. Job Creation vs Singapore GDP Growth



Source: CEIC, Company Reports, Citi Research

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## Sector Outlook

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# Banks

## Business Model Trends and 2014 Outlook

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- **DBS top pick** — Singapore banks are in our view best positioned in Asean to benefit from developed markets' economic recovery, QE tapering and (eventually) US rates normalization. We still expect a challenging 2014 for earnings, and forecast high single-digit growth, as we are not expecting material NIM recovery unless and until interest rates rise. Business model trends: [a] loan moderation as mortgage growth eases, [b] banks' funding strategies as the industry moves from LDR to LCR, [c] fee strategies capturing growth in regional flows, [d] Asean contribution likely to moderate, while China rises. DBS (Buy, TP S\$19), OCBC (Neutral, TP S\$10.30), UOB (Neutral, TP S\$21.70).
- **2014E earnings outlook** — Loans to slow from mid-teens to low double-digit growth assuming mortgage growth eases to +10%yoy by mid-2014E; momentum will be more dependent on lumpy corporate and trade loans. Although recent results suggest NIMs have bottomed, we are concerned over soft loan yields, and have not factored in a material NIM rebound in 2014. Fee performance will likely differentiate the banks, cost discipline is needed for positive cost "jaws", and provision charges should normalize further despite no material asset-quality concerns. No material capital concerns.
- **Fee strategies following regional "mega trends"** — Banks have identified wealth mgmt., intra-Asian/offshore China trade, and growth in regional corporates as key "mega trends" whose flows will help drive fee growth. UOB has delivered the most consistent "annuity" fee growth among its peers in the past few years. OCBC still leads in wealth mgmt., while DBS' markets and customer treasury flows have enjoyed strong growth.
- **Regional earnings: China's rise but Asean to moderate** — We expect banks to be more cautious on top-line growth in Asean markets, with an emphasis on securing funding and containing asset quality risks. Greater China earnings were immaterial just four years ago, but the internationalization of the RMB has provided several growth opportunities.

# Property

## Heading into the Turning Point in 2014

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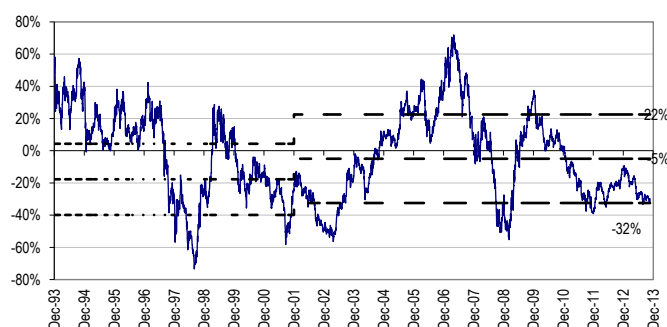
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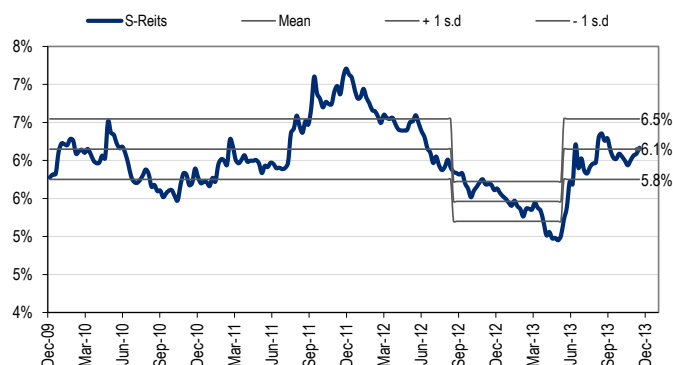
- **Developers over REITs** — Going into 2014, we continue to prefer developers over REITs given the macro taper and rate-related uncertainty associated with the latter. Developers also look more attractive on relative valuations, trading close to -1 stdev to mean, whereas the REITs remain closer to mean valuations relative to a QE3-removed historical basis. That said, our house view is for the US Fed Fund rate to remain at 0.25% through 2014, with USD 10Y Treasuries rising gradually to 3.25% by end-2014. As such, given this outlook of what is a relatively benign pick-up in rates, any repricing post the taper event could present a buying opportunity for the REITs.
- **Keppel Land and CMA as Top Picks** — Keppel Land remains our preferred pick among developers with residential exposure. We see potential stock-specific catalysts in the form of sustainable China pre-sales heading into 2014 and a potential divestment of MBFC Tower 3 over the next 12 months. We also like CMA for its pure-play retail exposure as well as improved earnings momentum as more of its malls complete and stabilize.
- **2014E earnings outlook** — We expect relatively soft DPU growth of 2-3% for the S-REITs in 2014. For the industrial and retail REITs, this growth would be largely derived from positive rental reversions and improved contributions from assets that have undergone enhancement or redevelopment. Purer-play office REITs may see a flatter DPU growth profile given that the level of expiring rents is close to current spot rents, but we would look to be more constructive in this space once these expectations are priced in.
- **Turning point before inflexion point** — We believe both the S-REIT and Singapore Residential sectors would reach a turning point in 2014. Macro factors and investor expectations would play an important role for the former; in the residential space, we expect the supply-demand dynamics to turn from one of under-supply to over-supply within the year. As such, from an asset allocation perspective, we would be underweight these two sectors at the start of 2014, while we await the respective inflexion points.

Figure 91. Premium (Discount) to RNAV - SG Developers



Source: Citi Research, Datastream

Figure 92. S-REITS 12M Forward Dividend Yield



Source: Citi Research, Datastream

# Offshore Marine/ Shipbuilding

## Sticking With Industry Leaders

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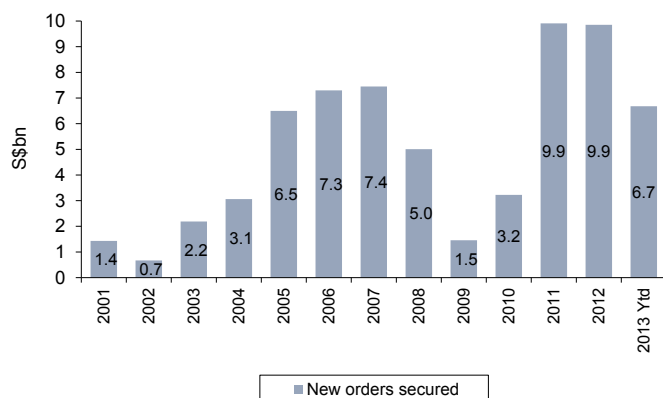
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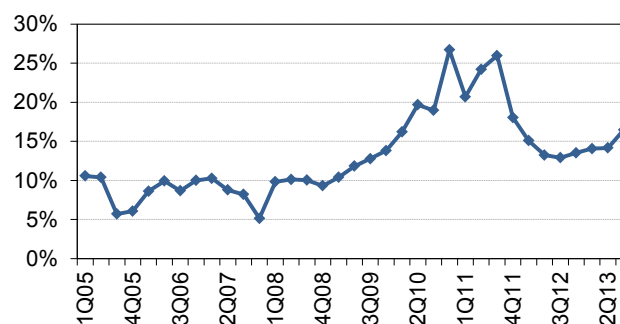
- **Keppel Top Pick; Cosco Top Sell** — KEP remains our preferred pick in the sector. The group will be operating at optimal capacity into 2015, underpinned by three consecutive years of robust contract wins. In addition, an attractive order-win profile in 2013 (~80% driven by higher margin KFELs jackups) contributes to better margin visibility over the next two years. COS continues to secure a respectable amount of order wins, but its latest financial results (3Q13: S\$34m in loss provisions) reaffirms our view that project execution will be a persistent challenge to earnings visibility.
- **2014E earnings outlook**— Earnings outlook in 2014 is mixed, with industry leaders KEP (offshore) and YZJ (shipbuilding) poised to outperform on margins and/or order intake. We expect SMM's margins (3Q13 EBIT margin: 10.1%) to recovery in 2014, although the extent of rebound is admittedly clouded by a more diverse product mix (less jackup-driven compared to KEP). For COS, risk of recurring provisions or write-backs could result in huge swings QoQ.
- **Offshore** — We are upbeat on prospects in 2014, with order win projections of S\$6.5bn and S\$ 5.5bn for KEP and SMM respectively. KEP, in particular, enjoys a higher degree of visibility at this juncture with [1] Outstanding options for six jackups held by Transocean and Ensco (~S\$1.7bn); and [2] a potential FLNG conversion deal with Golar in the works (contract value yet to be finalized; est. contract value of US\$750m according to Business Times).
- **Shipbuilding** — Outlook is likely to remain soft in 2014, although quality yards like YZJ could perform relatively well, on the back of [1] market share gains; and [2] stronger project execution. For Chinese shipyards, engaging in offshore projects will remain a high-risk undertaking given the competitive pressures (down payment of under 10%) and lack of technical expertise. Despite the relatively more attractive outlook for offshore, yards focused on shipbuilding could do relatively better (degree of competition has declined; payment terms generally improved to 30-70/40-60).

Figure 93. KEP O&M – New Order Wins Secured



Source: Source: Company Reports, Citi Research

Figure 94. KEP O&M – EBIT Margins



Source: Company Reports, Citi Research



# Telecoms

## Positioning for rising bond yields

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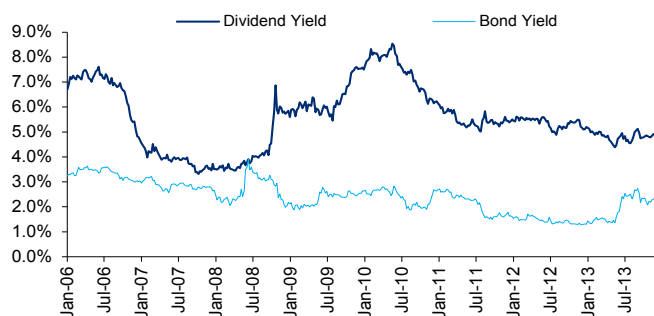
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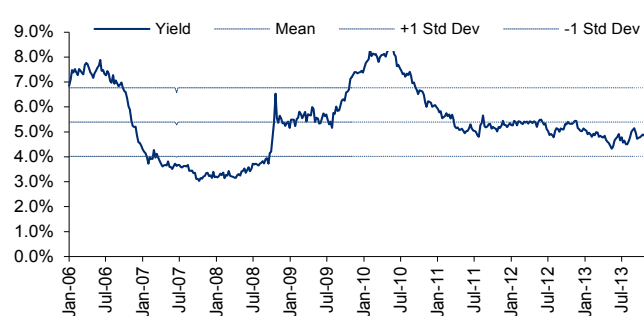
- **Sell M1, StarHub, Neutral Singtel** — We take a neutral-to-negative view on the Singapore telcos going into FY14 with the backdrop of rising interest rates. Singapore telcos' share prices have performed well over the last 2-3 years owing to crowding into yield plays. Earnings momentum however had taken a turn for the worse for the sector with both Singtel & M1 seeing cuts in earnings outlook, contrary to their strong share-price performance. This we believe underscores the risk in the sector with investors crowding the yield names even with their negative earnings momentum. This could serve to unwind as QE tapers into FY14.
- **2014 earnings outlook is very tepid**— Singtel and StarHub may grow earnings by a mere 1-2% while M1 could see 16% rise in earnings. Yields however have risen to unattractive levels for FY14 at just 5%. Prospects of special dividends are low owing to the absence of any material asset sales and forthcoming spectrum payments.
- **Positive mobile pricing negated by weaker roaming contributions**— Telcos are moving in the right direction from a mobile standpoint with pricing trending up with a move towards tiered pricing for LTE and an upward revision in excess data price from S\$5.35 to S\$10.70 per excess GB. Benefits from these however have been negated by rising pressure on the international roaming segments which had been negatively impacted by the shift to OTT usage and the use of more efficient roaming data plans. This contributes c12-15% of mobile revenues.
- **Cross carriage takes a bigger role**— The gov't has fully enforced cross carriage, forcing Singtel to open up its EPL content to StarHub's subscribers. This has resulted in a general escalation in pay TV competition with operators taking a more aggressive stance in pay TV offers. Competition in this side may remain aggressive.

Figure 95. Singapore bond-dividend yield correlation



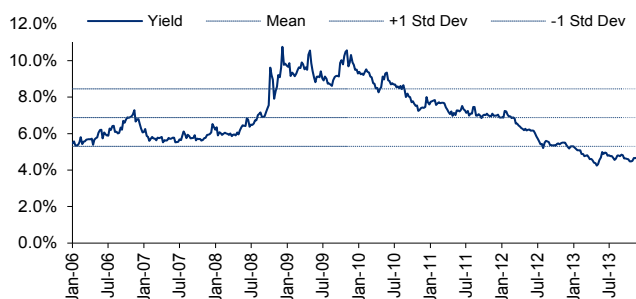
Source: Citi Research

Figure 96. ST Yield Band



Source: Citi Research

Figure 97. STH Yield Band



Source: Citi Research

Figure 98. M1 Yield Band



Source: Citi Research

# Gaming and Lodging

## Reiterate GENS as Top Pick

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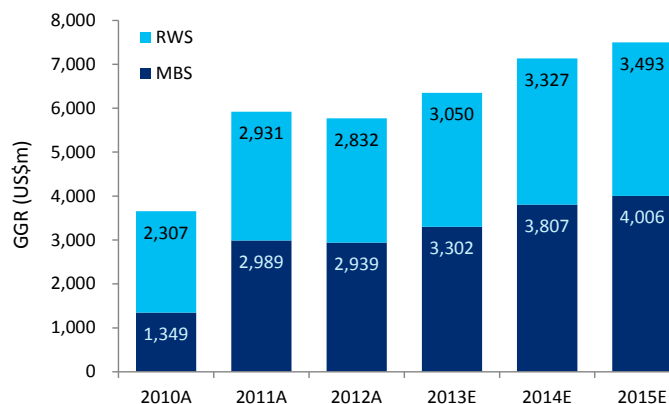
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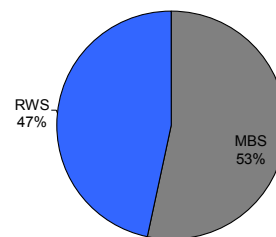
- **Reiterate GENS as our Top Pick with TP of S\$1.75** — GENS is trading at 11.0x EV/EBITDA (29% discount to Macau). We believe the sluggish mass growth in Singapore has probably been already priced in. In our view, there is limited downside at the current level. The optionality of GENS securing a gaming license in Japan (which looks yet to be fully priced in) is estimated to be worth an incremental value of ~S\$0.50/share.
- **Singapore 2014 Outlook** — For 2014, we maintain our view that VIP business will continue to recover and forecast Singapore's GGR to grow 12% YoY to US\$7.1bn (from ~US\$6.4bn in 2013E).
- **Mass Lackluster** — We believe mass growth in 2014 will remain lackluster, as tourist growth is expected to slow (8.7% in 9M13 vs 10.0% in 2012) and the lack of new hotel supply will likely cap mass growth. We are conservatively looking for a +7% growth in mass GGR in FY14.
- **Market Share** — On our estimates, RWS will finish 2013 capturing 51% and 45% of VIP and mass market, respectively (vs 48% and 45% in FY12). Net-net, we forecast RWS will garner ~47% of the Singapore gaming market. We forecast RWS' overall market share will remain largely unchanged in FY14.

Figure 99. 2014E Singapore GGR Estimates



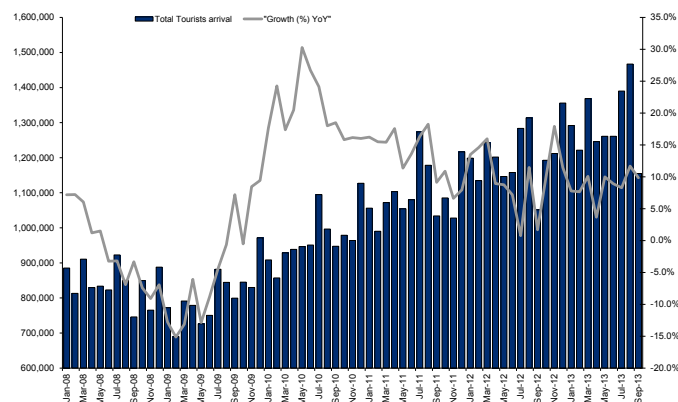
Source: Citi Research Estimates

Figure 100. 2014E Singapore Market Share Split



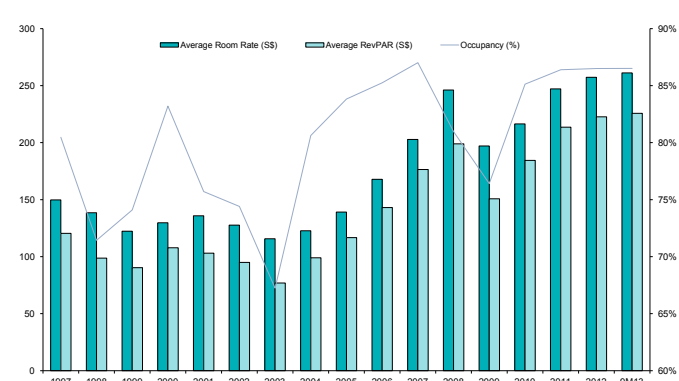
Source: Citi Research Estimates

Figure 101. Singapore International Visitor Arrivals (2008 – Current)



Source: Singapore Tourism Board, Citi Research

Figure 102. Singapore Hotels: RevPar Trend (97 – Current)



Source: Singapore Tourism Board, Citi Research

# Transportation

## Still Looks Way Too Early the Play these Cyclical

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- **Passenger Yield Trends at SQ Trail CX** – CX has been one of the only airlines in Asia to reduce its passenger capacity this year in light of the weakened demand environment (vs an estimated 4% growth at SQ in F14), which may allow the carrier to raise pax yields in 2H and into 2014 (building upon +4%YoY in 1H, vs -2% at SQ's Parent Airline, which was -3.5% YoY in the Sept quarter). In fact, CX could begin reporting yields above those at SQ (vs an average 8% discount in the past six years). SQ is also more impacted by the weaker currency trends in ASEAN (which generates 50%+ pax revenue from points of sale in East Asia) relative to CX.
- **SQ Faces Heightened Competitive Climate as Qantas/Emirates and LCC** - While the impact from the Qantas/Emirates tie up on SQ remains to be seen, increased competition on hub traffic as well as that from the regional LCCs will continue to weigh on the shares near-term, in our view (particularly with the new KLIA 2 Terminal scheduled to open around mid-year). Further, SQ's increased investment in Virgin Australia may provide some opportunities, but the pace of integration with loss-making Tiger Australia and the competitive domestic environment there are not without their own challenges.
- **Maintain Sell on SQ** – Our recently revised TP for SQ of S\$9.60 (up from S\$9.40) is also based on the 10-year average forward P/E of 16.4x (see below), applied to our revised EPS estimate of S\$0.59 (now just below FY15 cons vs 5% below three weeks ago) and below its 10-year average earnings of S\$0.84. We previously applied a forward P/B of 0.85x to reflect ~6% FY14/15E ROE and competitive pressures (which are still valid concerns). In our view, SIA is likely to face competition from LCCs and Middle Eastern carriers (incl. the Emirates/Qantas arrangement) and airport expansions in Bangkok/KL (KLIA 2 to open mid 2014); we also have concerns on SQ's investment in Tiger/Tiger Australia.
- **HPH Trust May Benefit from Easier Nov/Dec Vol Comps, but China GDP Expected to Decelerate** – Due in part to difficult year-ago comps, 3Q13 throughput at Yantian declined 3.5% YoY, ending 9M13 relatively flattish. With easier comps in Nov/Dec (and some stabilization in the China Macro & Export data), we are projecting volume growth to recover somewhat in 4Q. Yantian throughput is likely to grow mid-single digit next year, in line with our total China export growth forecast. Meanwhile, HIT will appear somewhat better from a YoY growth perspective due to the easier comps in 2Q/3Q14 (due to the labor disruption in March/April 2013) and a full-year contribution from ACT. That said, with rising taxes (as investment tax credits lap at Yantian) and rising labor costs take hold, the FY14 distribution is likely in jeopardy.

Figure 103. CX vs SQ Historical Average Forward P/E and P/B

<b>CX P/E</b>	<b>12.9</b>	<b>16.3</b>	<b>12.4</b>	<b>15.2</b>	<b>13.8</b>	<b>18.8</b>	<b>8.8</b>
	Current	1-Year Average	3-Year Average	5-Year Average	10-Year Average	+1StDev	-1 StDev
<b>CX P/B (incl KA Goodwill)</b>	<b>1.0</b>	<b>1.0</b>	<b>1.2</b>	<b>1.2</b>	<b>1.3</b>	<b>1.6</b>	<b>1.0</b>
	Current	1-Year Average	3-Year Average	5-Year Average	10-Year Average	+1StDev	-1 StDev
<b>SQ P/E</b>	<b>18.5</b>	<b>20.6</b>	<b>17.8</b>	<b>18.4</b>	<b>16.4</b>	<b>21.5</b>	<b>11.2</b>
	Current	1-Year Average	3-Year Average	5-Year Average	10-Year Average	+1StDev	-1 StDev
<b>SQ P/B</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.1</b>	<b>1.2</b>	<b>1.4</b>	<b>1.0</b>
	Current	1-Year Average	3-Year Average	5-Year Average	10-Year Average	+1StDev	-1 StDev

Current as of Dec 10 2013. Source: FactSet; Citi Research estimates

Figure 104. Cathay Pacific vs Singapore Airlines Yields (US Cents per RPK and FTK, 2007-2015E)

<b>CX Passenger Yields (including KA)</b>	<b>C07</b>	<b>C08</b>	<b>C09</b>	<b>C10</b>	<b>C11</b>	<b>C12</b>	<b>C13E</b>	<b>C14E</b>	<b>C15E</b>
Passenger Yield (HK\$/RPK)	0.605	0.637	0.516	0.615	0.668	0.675	0.697	0.716	0.718
Growth YoY		5.2%	-19.0%	19.0%	8.6%	1.2%	3.2%	2.7%	0.3%
Avg. FX Rate (HK\$/US\$)	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75	7.75
<b>Passenger Yield (US Cents/RPK)</b>	<b>7.81</b>	<b>8.22</b>	<b>6.66</b>	<b>7.93</b>	<b>8.61</b>	<b>8.72</b>	<b>9.00</b>	<b>9.24</b>	<b>9.27</b>
Growth YoY		5.2%	-19.0%	19.0%	8.6%	1.2%	3.2%	2.7%	0.3%
<b>Vs SQ (C vs F) (1)</b>	<b>-5%</b>	<b>-6.9%</b>	<b>-8.7%</b>	<b>-11.2%</b>	<b>-10.9%</b>	<b>-5.0%</b>	<b>2.0%</b>	<b>3.8%</b>	<b>3.2%</b>
<b>Vs SQ (C vs C) (1)</b>						<b>-5.8%</b>	<b>0.7%</b>		
<b>SQ Passenger Yields</b>	<b>FY08</b>	<b>FY09</b>	<b>FY10</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13</b>	<b>FY14E</b>	<b>FY15E</b>	<b>FY16E</b>
Passenger Yield (S\$/RPK)	0.121	0.125	0.104	0.119	0.118	0.114	0.111	0.112	0.113
Growth YoY		3.3%	-16.8%	14.4%	-0.8%	-3.4%	-3.0%	0.9%	0.9%
Avg. FX Rate (S\$/US\$)	1.47	1.42	1.43	1.33	1.22	1.24	1.25	1.25	1.25
Passenger Yield (US Cents/RPK)	8.21	8.83	7.30	8.93	9.67	9.17	8.82	8.90	8.98
Growth YoY		7.5%	-17.3%	22.4%	8.3%	-5.2%	-3.8%	0.9%	0.9%
<b>SilkAir (% of Airline Revenue)</b>	<b>4%</b>	<b>4%</b>	<b>5%</b>	<b>5%</b>	<b>6%</b>	<b>6%</b>	<b>6%</b>	<b>7%</b>	<b>7%</b>
<b>Passenger Yield (S\$/RPK)</b>	<b>0.140</b>	<b>0.150</b>	<b>0.131</b>	<b>0.141</b>	<b>0.145</b>	<b>0.141</b>	<b>0.143</b>	<b>0.141</b>	<b>0.139</b>
Growth YoY		7.1%	-12.7%	7.6%	2.8%	-2.8%	1.4%	-1.4%	-1.4%
Passenger Yield (US Cents/RPK)	9.50	10.59	9.19	10.59	11.89	11.35	11.40	11.24	11.08
Growth YoY		11.5%	-13.2%	15.1%	12.3%	-4.5%	0.5%	-1.4%	-1.4%

Note(1) Cathay Pacific reports on a Calendar Fiscal Year end basis, while Singapore Airlines reports on a Fiscal Year end March basis. As a result we show C13E vs F14. However, the row cx SQ (C v C) attempts to compare the estimated average calendarized yield for SQ. Source: Company reports. Citi Research estimates

# Planters and Traders

## Looking for Recovery in 2014

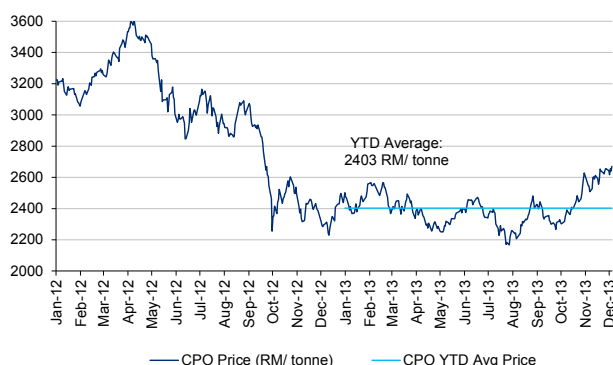
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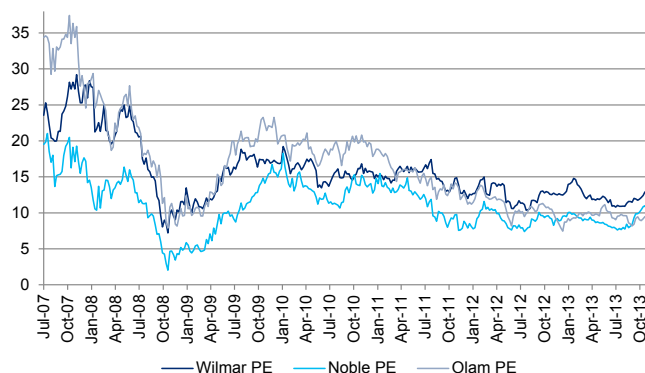
- **Better CPO price in 14E to lift planters earnings** — Average CPO price in qtr-to-date is RM2515/mt (+5% vs. avg. YTD CPO price of RM2403/mt). Spreads between CPO and competing edible oils have also narrowed significantly (spread between CPO spot and soyoil spot has narrowed to US\$34/mt vs long-term average of US\$119/mt) and hence we do not see significant upside to CPO price. Nonetheless, emphasis on biodiesel in Indonesia could maintain demand for palm oil, thereby providing support for CPO price. We maintain our CPO forecast of RM2700/t for CY14E (vs. RM2400/t in CY13E). Planters' earnings would potentially benefit on better CPO prices in 2014.
- **Wilmar our top pick within the trader space** — Wilmar is our top Buy pick within this space as we believe that the oilseeds business has reached a steady recovery phase. Wilmar had so far reported five successive quarters of positive margins in oilseeds 3Q13: US\$10/t, 2Q13: US\$3/t, 1Q13: US\$10/t, 4Q12: US\$9/t, 3Q12: US\$12/t, 2Q12's: -US\$9/t). Better CPO price and biodiesel demand would also benefit both its plantation and palm & laurics division.
- **Strategy execution is in the limelight for Olam** — As of end 1QFY14, Olam had managed to deliver positive free cash flow to firm and had entered into five strategic transactions which had helped unlock S\$300m in cash. Olam would continue to deliver on its strategic initiatives which include capex reduction, sustainable cost savings and optimization of working capital. Besides, Olam could also higher return metrics as its gestating assets enter into maturity (c.S\$3bn classified as partly contributing/gestating out of S\$10bn in invested assets). Evidence of successful execution on these initiatives could help re-rate the stock, which is currently trading at GFC lows.
- **Better outlook for FY14 for Noble** — We believe that Noble has likely passed through its worst operating point and would likely see earnings growth in FY14E with improvement in its agri division performance and continual execution of its cost management initiatives.

Figure 105. CPO Price Trend



Source: Citi Research, Bloomberg

Figure 106. Trading Companies – 12M Forward PER



Source: Citi Research, IBES

# Singapore Valuation Snapshot

Figure 107. Singapore Valuation Snapshot (11 Dec 2013)

Company Name	Reuters Ticker	Bloomberg Ticker	Price Currency	Price	Mkt Cap S\$'M	Risk/Rating	Target Price	ETR %	EPS Growth 2013 2014	P/E 2013 2014	P/B 2013 2014	Dividend yield 2013 2014	ROE 2013 2014
<b>Banks, Diversified Financials &amp; Insurance</b>													
DBS Group	DBSM.SI	DBS SP	SGD	16.56	40,567	1	19.00	19.0%	5.6% 10.7%	11.4 10.3	1.2 1.1	3.6% 4.2%	10.9% 11.5%
OCBC	OCBC.SI	OCBC SP	SGD	9.83	33,827	2	10.30	8.3%	-4.1% 6.0%	12.7 12.0	1.4 1.4	3.5% 3.5%	11.2% 11.4%
UOB	UOBH.SI	UOB SP	SGD	20.26	32,223	2	21.70	11.0%	4.2% 4.1%	11.4 11.0	1.3 1.2	3.7% 3.8%	12.0% 11.8%
Singapore Exchange	SGXL.SI	SGX SP	SGD	6.97	7,469	2	7.50	12.4%	15.3% 13.9%	21.3 18.7	8.4 7.5	4.0% 4.8%	40.8% 42.6%
Great Eastern Holdings	GELA.SI	GE SP	SGD	17.38	8,226	2	19.00	11.7%	-49.5% 6.7%	13.7 12.9	1.6 1.5	2.3% 2.4%	12.0% 11.8%
<b>Weighted Average</b>					<b>122,313</b>				<b>-0.5% 7.6%</b>	<b>12.5 11.6</b>	<b>1.8 1.6</b>	<b>3.5% 3.8%</b>	<b>13.2% 13.5%</b>
<b>Consumer Discretionary</b>													
Genting Singapore	GENS.SI	GENS SP	SGD	1.45	17,669	1	1.75	21.8%	4.4% 38.6%	28.8 20.8	2.4 2.1	0.0% 0.0%	10.5% 10.9%
Singapore Press	SPRM.SI	SPH SP	SGD	3.98	6,370	3	3.74	-0.1%	-1.1% 4.2%	17.7 17.0	2.9 2.9	6.0% 6.0%	16.4% 17.1%
Genting Hong Kong	GENH.SI	GENHK SP	USD	0.41	3,990	1	0.59	43.9%	8.3% 30.1%	15.8 12.2	1.2 1.1	0.0% 0.0%	16.5% 9.6%
Mandarin Oriental	MOIL.SI	MAND SP	USD	1.66	2,073	1	1.85	17.8%	42.3% -0.1%	16.4 16.4	1.7 1.7	6.0% 6.0%	10.8% 10.3%
<b>Weighted Average</b>					<b>30,103</b>				<b>6.4% 27.5%</b>	<b>23.9 18.6</b>	<b>2.3 2.1</b>	<b>1.7% 1.7%</b>	<b>12.5% 12.0%</b>
<b>Consumer Staples</b>													
Dairy Farm	DAIR.SI	DFI SP	USD	9.47	15,991	2			13.1% 8.6%	25.5 23.5	9.3 8.1	2.5% 2.7%	39.1% 36.9%
First Resources	FRLD.SI	FR SP	SGD	2.13	3,374	1	2.15	2.5%	0.0% 6.0%	12.5 11.8	2.3 2.0	1.6% 1.6%	18.9% 18.0%
Golden Agri-Resources	GAGR.SI	GGR SP	SGD	0.54	6,932	1	0.62	16.8%	-3.4% 27.2%	16.0 12.5	0.6 0.6	1.6% 2.0%	4.0% 4.9%
Indofood Agri-Resources	IFAR.SI	IFAR SP	SGD	0.87	1,260	3	0.95	11.2%	-20.4% 21.3%	14.5 11.9	0.8 0.8	1.4% 1.7%	6.0% 6.9%
Olam International	OLAM.SI	OLAM SP	SGD	1.46	3,566	1	2.06	44.2%	-1.0% 3.0%	9.7 9.4	0.9 0.9	2.7% 3.1%	10.2% 11.2%
Noble Group	NOBG.SI	NOBL SP	SGD	1.03	6,858	2	1.21	18.6%	-28.0% 45.3%	15.9 10.9	1.0 1.0	1.1% 2.3%	4.7% 9.4%
Wilmar International	WLIL.SI	WIL SP	SGD	3.38	21,643	1	3.95	18.3%	3.0% 16.6%	13.4 11.5	1.1 1.0	1.7% 2.0%	8.7% 9.5%
<b>Weighted Average</b>					<b>59,625</b>				<b>0.5% 17.7%</b>	<b>17.0 14.7</b>	<b>3.3 2.9</b>	<b>1.9% 2.3%</b>	<b>16.5% 16.8%</b>
<b>Industrials (Conglomerates)</b>													
Jardine Matheson	JARD.SI	JM SP	USD	51.91	44,120	3	47.50	-5.8%	9.4% 6.7%	11.9 11.1	0.4 0.4	2.7% 2.7%	3.8% 3.9%
Jardine Strategic	JSH.SI	JS SP	USD	32.10	44,911	2	35.00	9.8%	9.7% 7.2%	11.4 10.6	0.4 0.4	0.8% 0.8%	4.1% 4.1%
Singapore Technologies Engineering	STEG.SI	STE SP	SGD	3.80	11,807	2	4.20	15.4%	9.0% 6.2%	18.6 17.5	6.0 5.8	4.9% 5.1%	32.8% 33.7%
<b>Weighted Average</b>					<b>100,838</b>				<b>9.5% 6.9%</b>	<b>12.5 11.7</b>	<b>1.1 1.1</b>	<b>2.1% 2.1%</b>	<b>7.3% 7.4%</b>
<b>Industrials (Offshore Marine)</b>													
Keppel	KPLM.SI	KEP SP	SGD	10.88	19,679	1	13.35	26.8%	-14.7% 1.5%	12.1 11.9	2.0 1.8	4.1% 4.2%	16.9% 15.8%
SembCorp Industries	SCIL.SI	SCI SP	SGD	5.19	9,277	1	6.00	18.5%	7.5% 10.7%	11.5 10.4	1.8 1.7	2.9% 2.9%	16.9% 17.0%
Cosco Corporation (Singapore)	COSC.SI	COS SP	SGD	0.71	1,590	3	0.68	-1.4%	-28.6% -11.3%	21.1 23.8	1.2 1.2	2.8% 2.8%	5.8% 5.1%
SembCorp Marine	SCMN.SI	SMM SP	SGD	4.27	8,921	1	5.20	25.5%	0.9% 24.7%	16.4 13.1	3.3 3.0	3.7% 4.2%	21.2% 23.9%
Yangzijiang	YAZG.SI	YZJSGD SP	SGD	1.13	4,336	1	1.30	18.6%	-23.0% -25.6%	7.6 10.3	1.2 1.1	3.6% 2.7%	16.6% 11.2%
Vard Holdings	VARD.SI	VARD SP	SGD	0.81	950	1	1.10	39.8%	-55.9% 78.6%	11.7 6.6	1.3 1.2	2.9% 5.8%	11.8% 18.7%
<b>Weighted Average</b>					<b>44,753</b>				<b>-9.1% 6.6%</b>	<b>12.7 12.0</b>	<b>2.1 1.9</b>	<b>3.7% 3.8%</b>	<b>17.2% 16.9%</b>
<b>Industrials (Transport)</b>													
ComfortDelGro	CMDG.SI	CD SP	SGD	1.93	4,102	3	1.75	-5.9%	4.3% 3.8%	15.6 15.0	1.9 1.8	3.4% 3.6%	12.6% 12.3%
SMRT	SMRT.SI	MRT SP	SGD	1.20	1,818	3	0.88	-23.0%	20.4% 10.0%	18.2 16.5	2.2 2.1	3.3% 3.8%	12.5% 12.8%
Hutchison Port Holdings (HPH) Trust	HPHT.SI	HPHT SP	USD	0.62	6,690	3	0.70	22.6%	-12.9% 10.2%	20.8 18.9	0.6 0.7	8.8% 9.7%	2.9% 3.4%
SATS	SATS.SI	SATS SP	SGD	3.09	3,475	2	3.08	4.7%	3.7% 6.1%	16.5 15.6	2.4 2.3	5.0% 5.2%	14.7% 15.1%
Singapore Airlines	SIAL.SI	SIA SP	SGD	10.05	12,059	3	9.60	-2.1%	44.2% 40.1%	24.0 17.1	0.9 0.9	186.4% 233.7%	4.1% 5.1%
<b>Weighted Average</b>					<b>28,144</b>				<b>18.3% 21.5%</b>	<b>20.7 17.0</b>	<b>1.2 1.2</b>	<b>83.3% 103.8%</b>	<b>6.9% 7.5%</b>

Source: Citi Research estimates

Figure 108. Singapore Valuation Snapshot (11 Dec 2013)

Company Name	Reuters Ticker	Bloomberg Ticker	Price Currency	Price	Mkt Cap S\$M	Risk/ Rating	Target Price	ETR %	EPS Growth		P/E		P/B		Dividend yield		ROE	
									2013	2014	2013	2014	2013	2014	2013	2014	2013	2014
Real Estate Developers																		
Capitaland	CATL.SI	CAPL SP	SGD	2.97	12,686	1	4.50	54.2%	-20.7%	10.0%	17.2	15.7	0.8	0.8	2.7%	2.7%	4.7%	5.1%
CapitaMalls Asia	CMAL.SI	CMA SP	SGD	1.88	7,298	1	2.58	38.9%	50.5%	9.2%	27.5	25.2	1.1	1.1	1.3%	1.4%	4.0%	4.3%
City Developments	CTDM.SI	CIT SP	SGD	9.63	8,757	3	10.65	12.3%	-10.4%	14.0%	15.4	13.5	1.1	1.1	1.7%	1.2%	7.9%	8.4%
Keppel Land	KLAN.SI	KPLD SP	SGD	3.36	5,194	1	4.70	43.5%	-57.7%	56.0%	14.3	9.2	0.8	0.8	3.6%	3.6%	5.8%	8.7%
Hongkong Land	HKLD.SI	HKL SP	USD	5.88	17,277	1	7.57	32.0%	18.0%	3.1%	15.0	14.6	0.5	0.5	3.2%	3.4%	3.5%	3.5%
Yanlord	YNLG.SI	YLLG SP	SGD	1.19	2,309	3	1.20	2.1%	-24.2%	27.3%	13.7	10.7	0.7	0.6	0.7%	0.9%	4.9%	5.9%
Global Logistic Properties	GLPL.SI	GLP SP	SGD	2.85	13,565	1	3.54	25.2%	-11.4%	15.6%	34.3	29.7	1.3	1.2	1.0%	1.2%	3.7%	4.2%
Weighted Average					67,087				-2.7%	14.0%	20.7	18.3	0.9	0.9	2.2%	2.2%	4.6%	5.2%
Real Estate Investment Trusts																		
Ascendas REIT	AEMN.SI	AREIT SP	SGD	2.11	5,066	1	2.50	25.0%	-1.8%	2.1%	15.6	15.3	1.1	1.0	6.6%	6.7%	6.9%	6.9%
Ascendas India Trust	AINI.SI	AIT SP	SGD	0.70	642	1	0.78	17.6%	-12.5%	3.5%	16.2	15.6	1.0	1.0	6.1%	6.3%	6.3%	6.4%
CapitaCommercial Trust	CACT.SI	CCT SP	SGD	1.41	4,045	2	1.44	8.3%	6.8%	-3.4%	19.4	20.0	0.9	0.9	5.8%	5.6%	4.4%	4.3%
CapitaMall Trust	CMLT.SI	CT SP	SGD	1.85	6,399	2	2.00	13.6%	4.5%	3.4%	20.8	20.1	1.1	1.1	5.5%	5.6%	5.3%	5.3%
Fraser's Centrepoint Trust	FCRT.SI	FCT SP	SGD	1.74	1,438	2	1.90	15.5%	-2.9%	1.5%	17.4	17.1	1.2	1.1	6.3%	6.4%	6.6%	6.7%
Keppel REIT	KASA.SI	KREIT SP	SGD	1.16	3,220	2	1.16	7.0%	9.1%	6.8%	24.3	22.7	0.9	0.9	6.8%	6.8%	3.6%	3.9%
Mapletree Commercial Trust	MACT.SI	MCT SP	SGD	1.14	2,355	1	1.25	15.9%	3.1%	0.9%	18.0	17.9	1.1	1.0	5.8%	5.9%	6.2%	5.8%
Mapletree Industrial Trust	MAPI.SI	MINT SP	SGD	1.28	2,137	1	1.53	27.3%	0.3%	3.6%	14.2	13.7	1.1	1.1	7.3%	7.5%	8.0%	8.2%
Mapletree Logistics Trust	MAPL.SI	MLT SP	SGD	1.02	2,493	2	1.15	19.7%	5.5%	1.2%	14.6	14.5	1.1	1.1	7.0%	7.1%	7.6%	7.7%
Perennial China Retail Trust	PCRT.SI	PCRT SP	SGD	0.53	601	3	0.50	2.6%	-187.9%	42.3%	nm	nm	0.8	0.8	7.4%	7.5%	3.4%	4.8%
Parkway Life	PWLR.SI	PREIT SP	SGD	2.17	1,313	2	2.30	10.8%	-39.1%	6.8%	18.7	17.5	1.3	1.2	5.0%	5.3%	7.0%	6.9%
Suntec REIT	SUNT.SI	SUN SP	SGD	1.49	3,382	1	1.68	18.7%	-30.0%	6.5%	21.6	20.3	0.7	0.7	6.1%	6.4%	3.2%	3.3%
Mapletree Greater China Commercial Trust	MAPE.SI	MAGIC SP	SGD	0.84	2,248	1	1.06	33.4%	nm	5.7%	19.2	18.2	0.9	0.9	6.6%	7.3%	4.7%	5.0%
Soilbuild Business Space REIT	SBSR.SI	SBSR SI	SGD	0.75	603	1	0.84	19.8%	-11.2%	13.6	15.3	0.9	1.0	2.9%	7.9%	6.9%	6.2%	
Weighted Average					35,943				-5.4%	3.4%	18.7	18.2	1.0	1.0	6.2%	6.4%	5.5%	5.6%
Technology																		
CSE Global	CSES.SI	CSE SP	SGD	1.01	519	1	0.96	0.2%	-4.4%	9.9%	9.7	8.8	2.1	1.8	4.0%	4.7%	22.2%	21.8%
Venture	VENM.SI	VMS SP	SGD	7.49	2,060	2	7.65	9.5%	-1.7%	11.7%	15.0	13.4	1.1	1.1	6.7%	7.3%	7.6%	8.5%
Weighted Average					2,578				-2.3%	11.3%	13.9	12.5	1.3	1.3	6.1%	6.8%	10.6%	11.2%
Telecommunications																		
M1	MONE.SI	M1 SP	SGD	3.18	2,936	3	3.05	1.4%	17.3%	15.9%	16.6	14.3	7.5	6.8	5.4%	5.6%	47.3%	49.8%
SingTel	STEL.SI	ST SP	SGD	3.55	56,599	2	3.86	13.6%	1.5%	9.2%	15.4	14.1	2.3	2.2	4.8%	5.3%	15.3%	15.4%
StarHub	STAR.SI	STH SP	SGD	4.10	7,058	3	3.55	-8.5%	2.4%	2.2%	19.1	18.7	101.4	68.2	4.9%	4.9%	nm	nm
Weighted Average					66,593				2.3%	8.8%	15.9	14.6	13.0	9.4	4.9%	5.3%	16.9%	17.1%
Healthcare, Utilities & Others																		
Yongnam Holdings	YNAM.SI	YNH SP	SGD	0.24	298	3	0.28	23.4%	-6.3%	19.1%	7.4	6.2	0.9	0.8	4.3%	4.3%	12.0%	13.3%
Hyflux	HYFL.SI	HYF SP	SGD	1.15	989	1	1.62	45.0%	19.7%	22.8%	21.7	17.7	1.1	1.0	3.1%	3.4%	5.1%	5.9%
Weighted Average					14,712				15.3%	22.2%	19.2	15.7	1.0	1.0	0.3%	0.3%	3.7%	4.2%

Source: Citi Research estimates

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# Singapore Macro Outlook

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# Singapore Macro View

## Prospects 2014: Confronted by Cross Currents

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### ■ External uncertainties persist amid domestic supply constraints —

Persistent uncertainties over external demand suggest a patchy expansion in 2014, with 2014 growth expected at 3.5% (2013F: 4%). While the impact of a modest slowdown in CN and ID on manufacturing and services should be offset by a G3 recovery, a G3 recovery could nonetheless have less pronounced spillovers on exports than in the past. Domestic supply constraints may be more binding, with tightening of labour policies shifting towards higher wage EP holders, even as obstacles to a structural acceleration in productivity growth remain significant.

### ■ Manageable growth impact from lower house prices, household debt service burden —

Earlier studies suggest an expected 10-15% decline in house prices would shave 0.4-0.6% off GDP growth, largely via construction investments. These studies found the impact on private consumption to be small, given [1] the illiquid nature of housing wealth, though a likely increase in asset-based lending in recent years may have raised the impact on consumption; [2] cuts in discretionary incomes from higher downpayments and mortgage installments for more expensive homes. Consumers who have over-leveraged for owner-occupied mass-market private properties could be weighed down by higher debt service burdens, even *before* the Fed hikes as the TDSR framework is effectively a de facto rise in interest rates.

### ■ Risk from cost competitiveness erosion, especially if demand fails to pick up —

The combination of sluggish external demand and loss of cost competitiveness over the last two years has resulted in some pockets of stresses, especially amongst SMEs. Such trends, if they persist, could be disinflationary or even deflationary if corporate failures or a relocation of activities out of Singapore results in excess capacity. These trends will be arrested if a pick-up in growth allows firms to pass on pent-up cost pressures to consumers, restoring profit margins.

### ■ Higher core inflation near term, disinflationary pressures elsewhere —

Core inflation will likely rise to 2-2.5% in 2014 as a positive output gap gives companies more pricing power to pass through pent-up cost pressures, though tempered by cyclical easing of unit labour costs and moderate real wage growth. Outside of core, trends in car prices and imputed rents should be disinflationary, such that headline inflation should remain stable at 2-3% in 2014.

### ■ Policy implications —

With the expected rise in core inflation still within MAS's tolerance ranges, the hurdle for changes in MAS policy stance should remain high. Lower house prices and household balance sheet pressures could be tackled via supply reduction and relaxation of demand side measures, though this will be more likely in 2015 when interest rates rise and house prices have fallen sufficiently to break the one-way play on house prices. Fiscal policy will focus on enhancing social safety nets, targeted cash support for SMEs, and a more progressive tax system.

## Key Economic Data and Forecasts

Figure 109. Singapore - Key Economic Data and Forecasts

	2007	2008	2009	2010	2011	2012	2013E	2014F	2015F
<b>Real Sector</b>									
Real GDP (%YoY)	9.0	1.7	-0.8	14.8	5.2	1.3	4.0	3.5	4.0
Domestic Demand ex Inventory (%YoY)	9.5	7.0	-0.8	6.8	4.6	2.9	2.8	2.9	1.7
Real Consumption: Private (%YoY)	6.7	2.9	-0.5	6.2	4.6	2.2	2.6	2.4	1.3
Real Gross Fixed Capital Formation (%YoY)	17.2	13.7	-3.2	6.1	6.3	6.6	0.5	2.8	1.3
Consumer Prices (%YoY)	2.1	6.6	0.6	2.8	5.2	4.6	2.4	2.1	2.2
GDP (USD bn)	178.2	190.8	189.4	232.2	265.8	276.8	290.8	316.3	344.8
GDP Per Capita (USD)	38,828	39,434	37,970	45,741	51,275	52,099	53,855	57,507	61,571
Unemployment Rate (%)	2.1	2.3	3.0	2.2	2.0	1.9	1.9	1.8	1.8
<b>External Sector</b>									
Exports (%YoY, US\$)	11.2	13.4	-18.6	28.6	17.0	0.4	1.8	1.8	1.8
Imports (%YoY, US\$)	10.6	22.4	-23.2	27.5	18.5	3.7	2.4	2.1	2.2
Trade Balance (US\$ bn)	57.8	42.8	49.3	66.0	72.7	61.0	59.8	62.0	63.0
Current Account (% of GDP)	26.0	15.1	17.7	26.7	24.6	18.6	14.0	13.5	13.0
International Reserves ex. Gold (US\$ bn)	163.0	174.2	187.8	225.8	237.7	259.3	280.0	290.0	300.0
USD-SGD (period average)	1.51	1.41	1.45	1.36	1.26	1.25	1.25	1.24	1.20
<b>Other</b>									
3M Interbank Rate (% , average)	2.7	1.3	0.7	0.6	0.4	0.4	0.4	0.4	0.6
10-year SGS Yield (% , average)	2.9	2.8	2.4	2.4	2.1	1.5	2.2	2.8	3.1
Fiscal Balance, fiscal year basis (% of GDP)	2.8	0.1	-0.3	0.3	1.2	1.1	0.7	0.5	0.5
Population (persons million)	4.6	4.8	5.0	5.1	5.2	5.3	5.4	5.5	5.6

Source: CEIC, Haver, Citi Research estimates

Figure 110. Interest and Foreign Exchange Rate Forecasts

	22-Nov	4Q13	1Q14	2Q14	3Q14	4Q14	In 3M	In 6M	In 12M
SG 3-Month Interbank Rate	0.40	0.39	0.40	0.40	0.40	0.40	0.40	0.40	0.40
10-Year SGS	2.34	2.50	2.60	2.75	2.90	3.00	2.57	2.69	2.96
USD-SGD	1.25	1.24	1.24	1.24	1.24	1.23	1.24	1.24	1.23
US Fed Fund Rate	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
10-Year Treasuries	2.78	2.56	2.70	2.95	3.15	3.25	NA	NA	NA

Source: Reuters, Citi Research estimates

# Appendix A-1

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