

STRATEGY – SINGAPORE

Alpha Picks: Outperformed In 2019; Adding CSE Global

Our alpha picks outperformed the broader market in 2019 by 3.2ppt. In Dec 19, our portfolio's return of 1.5% mom surpassed the FSSTI's gain of 0.9% with notable outperformers being Yangzijiang and Fu Yu. For Jan 20, we add CSE Global to our portfolio and stick to the rest of our picks.

WHAT'S NEW

- **Alpha picks outperformed FSSTI in 2019.** On an equal weighted basis, our alpha picks clocked in a decent gain of 8.2% in 2019, outperforming the FSSTI which recorded a smaller gain of 5.0%. This was mainly attributable to our portfolio's performance in 1Q19 (+5.3%) and 4Q19 (+7.4%).
- **Reviewing picks in December.** Our portfolio recorded an increase of 1.5% mom in December, surpassing the FSSTI's gain of 0.9% mom. Notable outperformers within our portfolio include Yangzijiang (+8.7% mom) and Fu Yu (+8.5% mom) which was partially offset by the underperformance of ST Engineering (-4.6%) and our short call on Sembcorp Marine (+4.8% mom).

ACTION

- **Adding CSE Global to our January portfolio.** We add CSE Global as we believe the group is likely to end the year with a strong order backlog. This, coupled with the earnings accretions from recent acquisitions, particularly Volta, sets CSE up for a strong 2020 in our view. In addition, the stock offers a generous dividend yield of 4.9% at current prices.

ANALYSTS' TOP ALPHA* PICKS

Analyst	Company	Rec	Performance [#]	Catalyst
Joohijit Kaur/ John Cheong	CSE Global	BUY	-	Large greenfield project wins, accretive acquisitions.
Adrian Loh	Sembcorp Marine	SELL	(1.4)	Earnings announcements showing that profitability and margins have further deteriorated.
Adrian Loh	Yangzijiang	BUY	24.0	New ship-building order announcements
Adrian Loh	Keppel Corp	BUY	8.6	Continued recovery in new-order flow in 2H19
Loke Peihao/ Jonathan Koh	CDREIT	BUY	(1.2)	Recovery in contribution from Orchard Hotel; growing Singapore tourist arrivals
K Ajith	ST Engineering	BUY	5.2	Already in place.
Jonathan Koh	DBS	BUY	(5.6)	US-China trade deal and strong deposit franchise which ensures firmer NIM.
John Cheong/ Joohijit Kaur	Koufu	BUY	(3.1)	Sale of its two central kitchens and better-than-expected contribution from R&B Tea.
John Cheong	Fu Yu	BUY	31.4	Higher-than-expected dividend or potential takeover offer.

* Denotes a timeframe of 1-3 months and not UOBKH's usual 12-month investment horizon for stock recommendation

[#] Share price change since stock was selected as Alpha Pick

Source: UOB Kay Hian

CSE Global – BUY (Joohijit Kaur & John Cheong)

- **Healthy orderbook and earnings-accretive acquisitions should lift earnings in 2020.** Strong 3Q19 order wins (+38% yoy excluding Volta's order wins) will likely have CSE posting an order backlog of S\$300m-320m at end-19 – the highest since 2012. In addition, we expect recent acquisitions to drive growth and earnings in 2020, particularly its acquisition of Volta from which we conservatively forecast net profit contribution of S\$3m for 2020.
- **Beneficiary of Smart Nation initiatives in Singapore.** With the government's emphasis on Smart Nation initiatives and the inclusion of digital defence as part of the overall Total Defence framework, CSE will be able to capitalise on future government tenders in this space. CSE managed to secure approx S\$60m from security related government

KEY RECOMMENDATIONS

Company	Rec	Share Price (S\$)	Target Price (S\$)	Upside/ (Downside) to TP (%)
CDL Htrust	BUY	1.63	2.05	25.8
CSE Global	BUY	0.56	0.70	25.0
DBS	BUY	26.05	30.00	15.2
Fu Yu	BUY	0.255	0.295	15.7
Keppel Corp	BUY	6.84	7.61	11.3
Koufu	BUY	0.78	0.95	21.8
Sembcorp Marine	SELL	1.37	1.17	-14.6
ST Engrg	BUY	4.02	4.32	7.5
Yangzijiang	BUY	1.19	1.46	22.7

Source: UOB Kay Hian

CHANGE IN SHARE PRICE

Company	Rec	Dec 19 (%)	To-date* (%)
CDL Htrust	BUY	0.0	(1.2)
DBS	BUY	2.5	(5.6)
Fu Yu	BUY	8.5	31.4
Keppel Corp	BUY	0.7	8.6
Koufu	BUY	0.7	(3.1)
Sembcorp Marine	SELL	4.8	(1.4)
ST Engrg	BUY	(4.6)	5.2
Yangzijiang	BUY	8.7	24.0
FSSTI		0.9	

* Share price change since stock was selected as alpha pick

Source: UOB Kay Hian

PORTFOLIO RETURNS

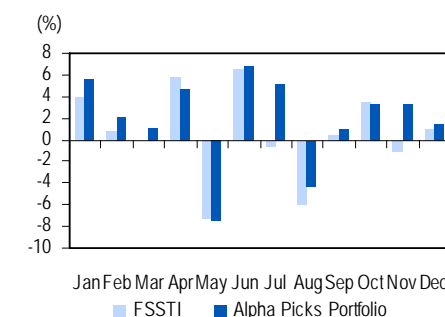
	2019	1Q19	2Q19	3Q19	4Q19
FSSTI return	5.0	4.7	3.4	-6.1	3.3
Alpha Picks Return					
- Price-weighted	3.0	-0.4	1.2	0.4	5.4
- Market cap-weighted	3.4	-0.3	3.1	-0.5	6.1
- Equal-weighted	8.2	5.3	2.7	2.0	7.4

Assumptions for the 3 methodologies:

- 1) Price-weighted: Assuming same number of shares for each stock; a higher share price will have a higher weighting.
- 2) Market cap-weighted: Weighting based on the market cap at inception date; a higher market cap will have a higher weighting.
- 3) Equal-weighted: Assuming same investment amount for each stock; every stock will have the same weighting.

Source: UOB Kay Hian

MONTHLY PORTFOLIO RETURNS SINCE JAN-19 (WE OUTPERFORMED FSSTI 9 OUT OF 12 MONTHS IN 2019)



Source: Bloomberg, UOB Kay Hian

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contracts in 4Q18; further wins in this area will add to CSE's growth momentum in 2020.

- **Attractive dividend yield at 4.9%.** The group has adopted an absolute DPS payout of 2.75 S cents/share since 2014 and intends to maintain dividend at 2.75 S cents/share for 2019, translating into a generous dividend yield of 4.9%.

Share Price Catalyst

- Event: Large greenfield project wins, accretive acquisitions.
- Timeline: 3-6 months.

Sembcorp Marine – SELL (Adrian Loh)

- **Excessive premium currently in share price.** SMM's share price reacted positively to Temasek's announcement of a partial offer for Keppel Corp. We believe that this was due to market speculation that this was a precursor to a merger between SMM and Keppel Offshore Marine, which would then create a larger, more competitive and profitable entity. While this is our base case, we highlight that a timeline for such a merger is likely 12 or more months away; in the meantime, SMM reported lower-than-expected 3Q19 results and this is likely the case for 4Q19 results as well. Losses may even extend into 1Q20, in our view.
- **Recent order likely to help 1Q20 earnings.** As a belated Christmas present, SMM announced two orders worth S\$550m for wellhead platforms for the offshore Al Shaheen field and various offshore assets for Total's Tyra field in the North Sea. Order wins for 2019 total S\$1.375b which is higher than 2018's S\$1.18b. In our view, the company is not out of the woods yet and needs to win more orders to bolster 2020 earnings.
- **Current valuations do not appear compelling** as SMM is currently trading at a one-year forward P/B of 1.3x based on our 2020 forecasts (off its recent trough of 1.01x), and a forecast ROE of 0.1% in 2020F and 1.6% in 2021F.

Share Price Catalyst

- Event: Earnings announcements showing that profitability and margins have further deteriorated.
- Timeline: 1-2 months.

Yangzijiang Shipbuilding (Holdings) – BUY (Adrian Loh)

- **On 22 Dec 19, Yangzijiang (YZJ) announced that its chairman Ren Yuanlin would return to the company on 23 Dec 19.** We had believed that the initial share price weakness over the course of Aug-Sep 19 regarding its chairman assisting investigations in China was unwarranted, given that it does not involve the company or its funds, and the first part of our thesis has so far worked out.
- **YZJ's current management ran the company well** while the chairman was away. In particular, Mr Ren Letian, the CEO of YZJ for the past five years and the son of Chairman Ren Yuanlin, has been with the company since 2006 in various roles. With his detailed knowledge of shipyard and shipbuilding operations, the core business did not falter and recorded solid results: Gross-profit margin in 3Q19 expanding 0.8ppt yoy to 19.5%, while core shipbuilding margin remained robust at 14%.
- **Positive shipbuilding outlook in the medium term.** New shipbuilding orders for YZJ have mildly disappointed in 2019. However, we remain confident that in the near to medium term, the International Maritime Organisation (IMO) 2020 regulations will lead to new orders for the company. As at end-3Q19, the company had net cash of Rmb4.2b, part of which we believe could be used to pay a special dividend. During its 3Q19 results briefing, YZJ had stated that it would look to scale back some capex in 2020; thus, the use of funds will likely decline yoy. The company is trading at an inexpensive valuation of 0.7x P/B (-1SD below 5-year average). We have a BUY recommendation on the stock and a P/B-based target price of S\$1.46.

Share Price Catalyst

- New ship-building order announcements, specifically from Japanese shipowners due to the positive synergistic effects of the Mitsui JV.
- Timeline: 2-3 months.

Keppel Corp – BUY (Adrian Loh)

- **Temasek's partial offer to acquire an additional 31% of Keppel shares appears to have put a "floor price" on the company** of around \$6.80/share or so. However, we still believe there is room for further upside as the company has been executing well on its plans. Prior to Temasek's partial offer, Keppel had been investing heavily into new areas (telecommunications and asset management) while its offshore & marine unit has made good headway with targeting new clients in the offshore renewable space.
- **All of its main businesses saw top-line growth.** Its 3Q19 gross revenue of S\$2.1b grew 60% yoy, while for 9M19, gross revenue grew 26% yoy to S\$5.4b. More importantly, revenue growth in 3Q19 was driven by all of KEP's main segments, namely investments, infrastructure, offshore & marine and property. Pre-tax profit for 3Q19 was admittedly down 32% yoy – however, this was due to the absence of lumpy property sales that occurred in 3Q18.

Share Price Catalyst

- Event: Continued recovery in new-order flow in 2H19.
- Timeline: 3-6 months.

CDL Hospitality Trust – BUY (Loke Peihao & Jonathan Koh)

- **Singapore Portfolio (61.4% of Sep 19 NPI) seeing light.** In 3Q19, Singapore portfolio RevPAR grew 4.9% yoy, on back of improved S\$190 ARR (+4.2ppt qoq), and 91.4% occupancy (+7.3ppt qoq; also highest level since 3Q14). The improvement came on the back of stronger leisure travel (est. to account for 50% of the business), potential diversion of tourism flows to Singapore as a result of the unrest in Hong Kong, and additional business generated by the F1 Singapore Grand Prix. Anecdotal, management also noted that they are contracting at higher prices for some 2020 corporate requests for proposals (although some accounts remain price sensitive).
- **Singapore RevPAR to yield up in 2020; benefitting from benign supply and tighter event calendar.** Forward supply (1.3% CAGR from end-18 to 2022) has moderated as compared with previous years' 2014-17 (5.5% CAGR). Visitor arrivals grew to 12.9m (+1.9% yoy) for 8M19, as a result of growth from China (+5.1%) and developed markets like the US (12.3%), Japan (7.3%). On the corporate front, biennial 2020 will see Singapore hosting a number of inaugural events, like the International Trademark Association's 142nd Annual Meeting (est. 8,000 attendees) and 103rd Lions Clubs International Convention (est. 20,000 foreign attendees). Exciting tourism infrastructure plans are also underway, which will help to provide a favourable environment for medium- to long-term growth.
- **Liang-Court Redevelopment.** CDREIT will divest Novotel Singapore Clarke Quay (NCQ) at S\$375.9m in Apr 20, unlocking S\$36.3m in gains and avoiding significant capex obligations (ie for a 35-year old hotel). At the same time, CDREIT will forward purchase the new hotel (with a refreshed 99-year lease) in 2025 at the lower of the S\$475m fixed price (S\$1.35m/key) or 110% of development costs. Management also has plans to acquire W-hotel in early-20 for S\$342.2m. On a combined basis, the transactions are expected to grow CDREIT's Singapore portfolio valuation to 68% (from 62%) and NPI exposure to 64% (from 60%). The absence of contributions from NCQ (partially mitigated by W hotel) is expected to lead to a 8% dilution during the initial five years.
- **Appetite for more acquisitions.** In 3Q19, gearing increased marginally to 36.3% (+1.1ppt qoq), and CDREIT still has ample debt headroom (S\$461m). Management guided that they continue to like assets in Singapore (cap rates: 3-3.5%) and Europe (cap

rates of 3-5%, depending on the city).

Share Price Catalyst

- Events: Newsflow on hotel room rates and occupancy, and tourist arrivals.
- Timeline: 3-12 months.

DBS – BUY (Jonathan Koh)

- **Wealth management continued to outperform in 3Q19.** Fees grew 17.1% yoy, driven by wealth management (+22% yoy). AUM expanded 9% yoy to S\$241b. Contribution from cards and transaction services (cash management and trade finance) also increased 9% and 7% yoy respectively.
- **Hong Kong expected to remain resilient.** DBS Hong Kong services large corporations, including conglomerates in Hong Kong and state-owned companies in China. The bulk of loans are China-related but booked in Hong Kong. The SME book is well collateralised, mainly secured by properties with low LTV ratio. Companies in industries affected by social unrest, such as retail, hospitality and tourism, are primarily depositors and have limited appetite to borrow.

Share Price Catalysts

- Event: Improvement in cost-to-income ratio due to digitalisation and strategic cost management initiatives.
- Timeline: 3-6 months.

ST Engineering (K Ajith)

- **S\$1.3b in M&As in the aerospace and electronics division is expected to be earnings accretive and enable STE to move up the value chain.** The acquisition of nacelle manufacturer MRA system (MRAS) will provide a steady pipeline of OEM aerospace works for the next 10 years. Meanwhile, the acquisition of Satcom firms Newtec and Glowlink will enhance STE's Satcom capabilities for applications in the aerospace, defense and maritime segments.
- **Orderbook at S\$15.9b stood at record high (+2% from 2Q19), and STE expects to recognise S\$2.2b** (S\$1.6b previously). STE expects its robust orderbook to "continue to provide revenue visibility for the next few years."
- We have valued STE on an EV/Invested Capital with ROIC at 13.4%, WACC at 5.9% and long-term growth rate of 2.3%. At our fair value of S\$4.32, STE trades at 21.5x 2020F PE.

Share Price Catalyst

- Event: New contract wins for the marine division.
- Timeline: 3-6 months.

Koufu Group – BUY (Joohijit Kaur & John Cheong)

- **Defensive cash cow backed by strong brands and leading market position.** Koufu runs highly defensive food court and coffee shop businesses, and is focused on providing competitively priced meals transacted in cash terms. Its outlet and mall management business has seen consistently high occupancy of at least 93% in the last three years. Koufu intends to distribute at least 50% of its profits for 2019, which is sustainable given strong cash-flow generation. This could translate into a potential dividend yield of 3.5% for 2019.
- **We forecast double-digit net profit growth for 2019** with completed enhancement initiatives of Rasapura Masters, a pipeline of five new food courts and faster roll-out of R&B and Super Tea which are popular with the younger crowds. Beyond Singapore, Macau will be its overseas expansion springboard which is already contributing 9% of

group revenue.

- **Disposal of central kitchens should unlock S\$10m in value.** Koufu owns two central kitchens at 18 and 20 Woodlands Terrace, Singapore. We estimate the eventual sale of these properties could bring in S\$10m and unlock gains of up to S\$8m, which could translate into higher dividends.

Share Price Catalyst

- Sale of its two central kitchens, better-than-expected contribution from R&B Tea, and better-than-expected performance from Rasapura.
- Timeline: 3-6 months.

Fu Yu Corp – BUY (John Cheong)

- **High and sustainable dividend yield, inexpensive EV/EBITDA.** FUYU offers a high and sustainable dividend yield of 6.7% for 2019, and we expect this to increase to 7.1% in 2020 on the back of improving net profit, FCF and strong net cash of S\$85m as of 3Q19 (or S\$0.11 per share). In 2018, FUYU raised its interim dividend for the first time in three years, and we expect further increases.
- **Takeover target for valuation, diversification, capacity and salary savings.** FUYU could be a takeover target, given: a) its attractive valuation at 3.2x 2020F EV/EBITDA (note that peers were privatised at EV/EBITDA of 5.0-25.7x in the past), b) FUYU's geographically diversified plants and customers are highly sought after, c) its low utilisation rate of only around 50% could appeal to potential acquirers who are in a hurry to increase production capacity; and d) low-hanging fruit from the savings of three co-founders' remuneration, estimated at S\$2.3m-3.0m p.a. or 20-27% of 2018 net profit.
- **Disclosure of properties' market value in 2018 annual report indicates massive hidden value.** FUYU's conservative accounting policy in recognising its properties at book value has undervalued the assets by S\$50m, or 33% of its market cap (S\$0.07 per share), based on its 2018 annual report. Any disposal to unlock value could further re-rate the stock, in our view. The hidden value of these properties, the company's inexpensive valuation, diversified operations and low utilisation rate make FUYU an attractive takeover target.

Share Price Catalyst

- Events: a) Higher-than-expected dividends, b) potential takeover offer, and c) potential corporate actions to unlock value, such as disposal of properties.
- Timeline: 3-6 months.

VALUATION

Company	Ticker	Rec	Price 7 Jan 20 (S\$)	Target Price (S\$)	Last Year End	PE			Yield 2020F (%)	ROE 2020F (%)	Market Cap. (S\$m)	Price/ NTA ps (x)
						2018 (x)	2019F (x)	2020F (x)				
CDL Htrust	CDREIT SP	BUY	1.63	2.05	12/18	27.0	21.4	16.4	6.1	6.5	1,976.5	1.1
CSE Global	CSE SP	BUY	0.56	0.70	12/18	14.2	12.9	10.7	4.9	14.3	284.5	1.7
DBS	DBS SP	BUY	26.05	30.00	12/18	12.1	10.5	10.9	4.6	12.0	66,534.9	1.4
Fu Yu	FUYU SP	BUY	0.255	0.295	12/18	16.1	14.8	13.7	7.1	8.5	192.0	1.2
Keppel Corp	KEP SP	BUY	6.84	7.61	12/18	13.2	15.3	14.5	2.8	7.3	12,424.0	1.1
Koufu	KOUFU SP	BUY	0.78	0.95	12/18	16.4	14.8	13.7	3.6	29.1	432.8	4.5
Sembcorp Marine	SMM SP	SELL	1.37	1.17	12/18	n.a.	n.a.	n.a.	0.0	0.1	2,866.1	1.3
ST Engineering	STE SP	BUY	4.02	4.32	12/18	25.4	22.0	20.0	4.0	26.4	12,523.7	5.9
Yangzijiang	YZJSGD SP	BUY	1.19	1.46	12/18	6.4	6.9	8.7	2.5	8.4	4,663.3	0.8

Source: UOB Kay Hian

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