

# Singapore Market Focus

Refer to important disclosures at the end of this report

DBS Group Research . Equity

10 Apr 2017

## Strike One... And Out

- **US missile attack on Syria a profit-taking excuse for recent 'risk-on' rally**
- **Base case – knee-jerk reaction won't last as the attack is a one-off response**
- **What if Syria situation deteriorates – consumer staples, S-REITs, ST Engineering and CNMC Goldmine to outperform. Banks UOB, OCBC to underperform**

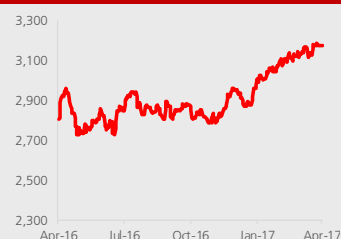
**Geopolitical risk in focus.** The US launched a missile attack against Syria last Friday in response to Assad's use of poison gas against civilians. The concern is that the situation could escalate. Russia's deputy UN ambassador said, before the strikes were made public, that any US military action would have "negative consequences."

**Profit-taking excuse for recent 'risk-on' rally.** The latest spike in geopolitical uncertainty gave investors a 'good excuse' to go 'risk-off' while safe haven assets rebounded. Equities reacted down, and oil price rose on this latest Middle East development, while gold and bonds rebounded from the flight to safety.

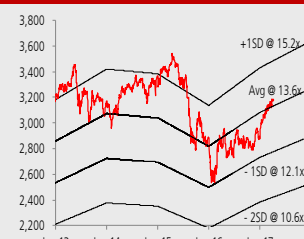
**Base case - US missile attack a one-off response.** Our base-case assumption is that last week's US missile attack on Syria is a one-off response. Initial reactions from countries do not suggest an escalation of uncertainty and financial markets' initial knee-jerk reaction to the missile strike had eased by last Friday's end. We keep our fingers cross that investors can put this event aside soon enough and focus on the other key events happening the rest of the month: (1) MAS policy meeting on 13 April, (2) French presidential elections on 23 April, and (3) 1Q17 results season.

**What if the Syria situation deteriorates.** In the more unlikely event that the geopolitical uncertainties in the Middle East escalate, the 'risk-off, safe haven on' trade will continue. In this case, defensive stocks/sectors such as **Sheng Siong** and **Thai Beverage** may outperform. **ST Engineering** may benefit through its defence arm while **CNMC Goldmine** from higher gold prices. **S-REITs** may benefit from slower US rate hike expectations. Conversely, transport stocks that are sensitive to oil price fluctuations may underperform as would banks **UOB, OCBC** on a slower rise in NIM, as the pace of US rate hikes may ease.

**Straits Times Index**



**STI and 12-mth fwd PE**



## STOCKS

	Price	Mkt Cap	Target Price	Performance (%)		Rating
	S\$	US\$m	S\$	3 mth	12 mth	
Frasers Logistics & Industrial Trust	0.98	991	1.10	3.2	N.A	BUY
Sheng Siong	1.00	1,064	1.13	6.4	18.5	BUY
Thai Beverage	0.94	16,791	1.09	10.6	27.9	BUY

## Model Portfolio

	Price (S\$)	12-mth Target Price (S\$)	Upside (%)	Rec
<b>Conservative</b>				
Sheng Siong	0.995	1.13	13	BUY
<b>Balanced</b>				
UOL Group	7.020	7.64	9	BUY
ST Engineering	3.650	3.80	4	BUY
<b>Growth</b>				
Bumitama Agri	0.795	0.99	25	BUY
Ezion Holdings	0.365	0.62	70	BUY
PACC Offshore Services	0.340	0.42	23	BUY
Singapore O&G	1.345	1.60	19	BUY
Japfa Ltd	0.835	1.25	50	BUY
<b>Blue Chips</b>				
UOL Group	7.020	7.64	9	BUY
ST Engineering	3.650	3.80	4	BUY
<b>Dividend</b>				
Croesus Retail Trust	0.915	0.99	8	BUY
Sheng Siong	0.995	1.13	13	BUY
<b>Small Mid Cap</b>				
Cityneon Holdings	0.905	1.26	39	BUY
Ezion Holdings	0.365	0.62	70	BUY
Japfa Ltd	0.835	1.25	50	BUY
Midas Holdings	0.225	0.36	60	BUY
Singapore O&G	1.345	1.60	19	BUY

Source of all data on this page: DBS Bank; Bloomberg Finance L.P.  
Closing price as of 7 Apr 2017

**Geopolitical risks take centre stage as US responds to Syria with missile attack**

Geopolitical risks took centre stage last Friday after the US launched a cruise missile attack against Syria two days after Bashar al-Assad's regime used poison gas to kill scores of civilians, which drew international condemnation. According to Bloomberg citing US officials, the limited strike that occurred early Friday morning in Syria took aim at hangars, planes and fuel tanks at the Shayrat Airfield. The US struck the airfield with about 60 Raytheon Co. Tomahawk cruise missiles fired from two Navy destroyers in the Mediterranean Sea.

The decision to strike in Syria marked a stark reversal for Trump, who during his presidential campaign faulted past US leaders for getting embroiled in conflicts in the Middle East. But he said this week that deaths of children among the more than 70 killed in the April 4 attack, images of which were broadcast worldwide, crossed "beyond red lines" and changed his thinking.

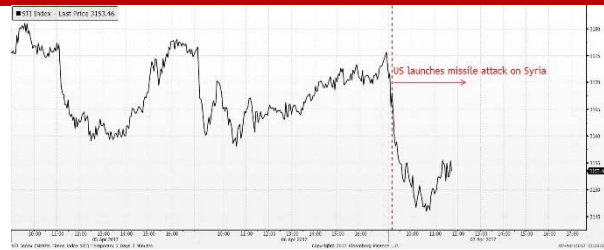
Investors are concerned that the situation could escalate. Russia has military forces in Syria to support Assad's regime in its battle against rebel groups that include the Islamic State and al-Qaeda fighters. Vladimir Safronkov, Russia's deputy UN ambassador said, before the strikes were made public, that any US military action would have "negative consequences."

**Financial markets react**

Risky assets had rallied in recent months on optimism of improving global economic conditions led by the US. But the 'Trump trade' is looking increasingly overcrowded and wavered in recent weeks as investors grew doubtful of his ability to push through his tax reforms and infrastructure spending plans through congress.

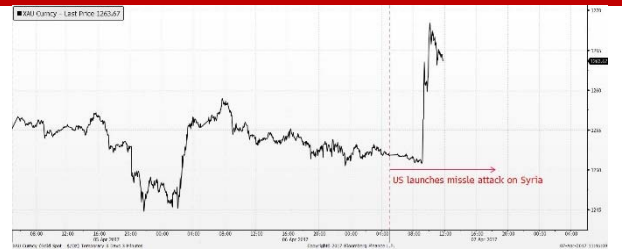
The latest spike in geopolitical uncertain gave investors a 'good excuse' to go 'risk-off' while safe haven assets rebounded. Equities reacted down, and oil price rose on this latest Middle East development, while gold and bonds rebounded from the flight to safety.

**Straits Times Index (Period: 3-day)**



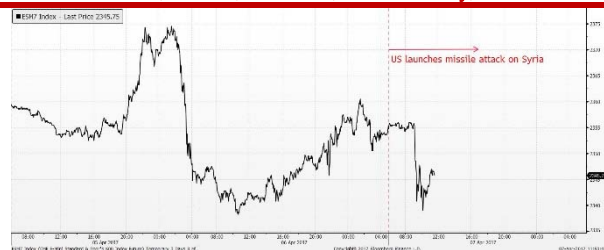
Source: DBS Bank

**Gold (Period: 3-day)**



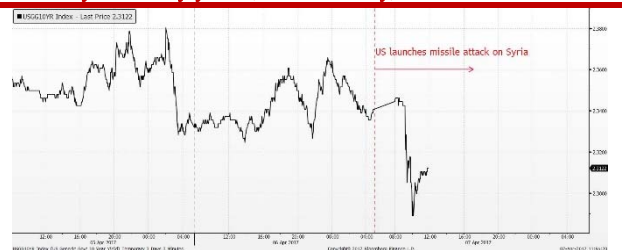
Source: DBS Bank

**S&P 500 mini (June 17) futures (Period: 3-day)**



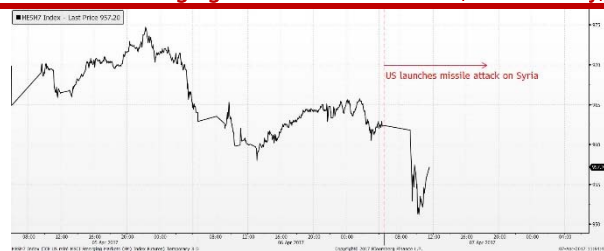
Source: DBS Bank

**US 10-yr treasury yield (Period: 3-day)**



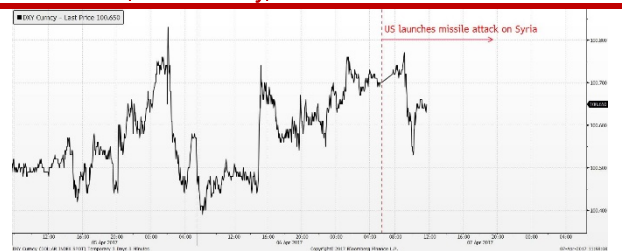
Source: DBS Bank

**mini MSCI Emerging Markets Index futures (Period: 3-day)**



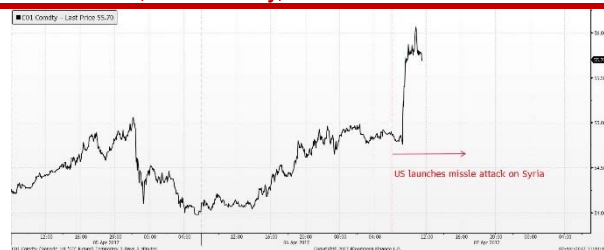
Source: DBS Bank

**USD Index (Period: 3-day)**



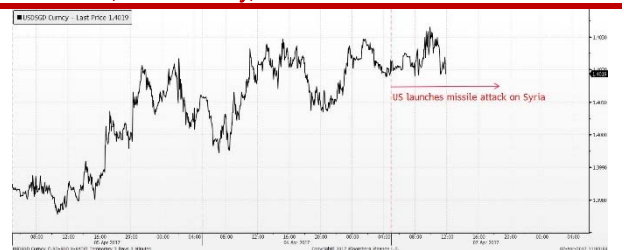
Source: DBS Bank

**Brent crude (Period: 3-day)**



Source: DBS Bank

**USDSGD (Period: 3-day)**



Source: DBS Bank

**Keeping our fingers crossed that the situation will not escalate**

History shows that financial markets' reactions to geopolitical events such as wars or military conflicts do not last. The negative reaction ends once investors see developments pointing to an end to the uncertainty. In this case, investors will eye the responses from Russia and Middle East countries. Fortunately, initial reactions from countries do not suggest an escalation of uncertainty.

In the first official statement from Russia about the air strikes, the head of the upper house of parliament defense

committee said that the strikes could undermine efforts to fight against terrorism in Syria, state media in Moscow reported. Iran condemns the attack while Saudi Arabia said it "fully supports" the strikes, saying it was a "courageous decision" by Donald Trump in response to the use of chemical weapons against civilians.

The table below summarises the financial markets' reaction in the immediate aftermath of the missile attack on Syria and our comments:

**Financial markets' immediate reaction to US missile attack on Syria**

	Price / Level			Comments
	6-Apr	*7-Apr	% change	
Straits Times Index	3175.59	3149.8	-0.8%	The fall continues from 3188 and is in line with our view for 3200/3230 resistance and 3050-3230 April range.
S&P 500 mini (June17) futures	2353.75	2346.25	-0.3%	Our CIO office earlier downgraded global equities to Neutral from Overweight for 2Q17 on concerns about Donald Trump's ability to steer the US economy. US equities are vulnerable to a significant correction post 'Trump trade' rally. But a new bear market in global equities is unlikely.
mini MSCI Emerging Markets Index futures	962.9	955.7	-0.7%	
Brent crude (USDpbl)	54.89	55.78	1.6%	Unless Middle East tensions escalate, we think an oil price rebound is unlikely to sustain in the near term. Concerns of rising US crude stockpile offset optimism on OPEC production cuts. Brent crude near-term technical resistance at US\$56.6pbl.
Gold (USD an ounce)	1251.7	1265	1.1%	Our CIO office is 3-month underweight and 12-month neutral on Gold.
US 10-yr Treasury yield	2.3408	2.3104	-1.3%	Unless the Middle East tension escalates, the negative reaction should not last. US 10-year yield had already retreated from a high of 2.625 to the current 2.32. We see technical support at 2.29. DBS Bank Research expects the 10-year yield to rise to 3.05% by end-2017.

Financial markets' immediate reaction to US missile attack on Syria (cont'd)

	Price / Level			% change
	6-Apr	*7-Apr		
USD Index	100.67	100.63	0.0%	The possibility that an escalation in geopolitical uncertainties might affect the pace of US rate hike offsets the USD being viewed as a safe haven.  DBS currency strategist pegs a range from 99.4 to 104.2 for 2Q17. There is upside potential for the USD Index as the current level is near the lower end of the trading band.
USDSGD	1.402	1.4023	0.0%	MAS policy meeting will be held on 13 April. We expect MAS to leave the SGD NEER policy band unchanged. Our currency strategist pegs a range from 1.41 to 1.47 for 2Q17. Based on this, there is upside potential for USDSGD.

\*At the time of writing  
Source: DBS Bank

**What you should do if the situation in Syria escalates**

Our base-case assumption is that today's US missile attack on Syria is a one-off response to Assad's use of chemical weapons on civilians. We keep our fingers crossed that investors can put aside the US missile strike 'soon enough' and focus on the other key events happening the rest of the month: (1) MAS policy meeting on 13 April, (2) French presidential elections on 23 April, and (3) 1Q17 results season.

In the more unlikely event that the geopolitical uncertainties in the Middle East escalate, the 'risk-off'

trade will continue. In this case, stocks/sectors that may outperform are:

- 1) Retailer **Sheng Siong** as well as **Thai Beverage** that are seen as defensive
- 2) The defence division of **ST Engineering** may benefit from more contract wins
- 3) Gold mining-related stock **CNMC Goldmine** from higher gold price
- 4) S-REITs from slower US rate hike expectations (our picks are **Ascendas REIT**, **Mapletree Commercial Trust**, **Keppel DC REIT**, **Frasers Logistics & Industrials Trust** and **Croesus REIT**)

**These stocks may outperform if Middle East geopolitical uncertainties worsen**

Company	Price 6 Apr 17	Target Price	Target Return	Sector	Rcmd	PER 17 (x)	EPS Growth 17 (%)	EPS Growth 18 (%)	Div Yield 17 (%)	Net Debt / Equity 17 (%)	P/BV 16 (x)
CNMC Goldmine	0.415	0.60	44%	Industrial Metal	BUY	11.3	17.0	19.4	3.7	cash	3.0
ST Engineering	3.640	3.80	4%	Aerospace/Defense	BUY	20.3	4.6	3.9	4.1	0.0	5.2
Ascendas Reit	2.530	2.65	5%	REITS	BUY	17.0	1.0	0.6	6.1	0.4	1.2
Croesus Retail Trust	0.915	0.99	8%	REITS	BUY	15.4	-2.2	-1.3	8.5	0.5	1.0
Frasers Logistics & Industrial Trust	0.975	1.10	13%	REITS	BUY	15.2	1070.3	3.0	7.5	0.3	1.0
Keppel DC Reit	1.215	1.30	7%	REITS	BUY	17.0	-5.2	0.7	5.8	0.3	1.3
Mapletree Commercial Trust	1.545	1.62	5%	REITS	BUY	18.4	22.7	2.2	5.8	0.4	1.2
Sheng Siong	0.995	1.13	13%	Retailer	BUY	22.1	8.2	6.2	4.1	Cash	5.9
Thai Bev	0.945	1.09	15%	Food producer	BUY	20.8	49.8	9.3	2.9	0.2	4.9

Source: DBS Bank

Stocks/sectors that may be negatively affected are:

- 1) Transport stocks that are sensitive to oil price fluctuations.
- 2) Banks (**UOB, OCBC**) on slower rise in NIM as pace of US rate hikes may ease

**These stocks may underperform if Middle East geopolitical uncertainties worsen**

Company	Price 6 Apr 17	Target Price	Target Return	Rcmd	PER 17 (x)	EPS Growth 17 (%)	EPS Growth 18 (%)	Div Yield 17 (%)	Net Debt / Equity 17 (%)	P/BV 16 (x)
OCBC	9.70	10.30	6%	HOLD	10.1	14.5	5.8	3.7	cash	1.1
UOB	21.94	22.70	3%	BUY	9.8	17.7	5.9	3.6	cash	1.1

Source: DBS Bank

## GDP & inflation forecasts

	GDP growth, % YoY					CPI inflation, % YoY				
	2013	2014	2015	2016	2017f	2013	2014	2015	2016	2017f
US	1.5	2.4	2.6	1.7	2.7	1.5	1.6	0.1	1.2	2.2
Japan	2.0	0.3	1.2	1.0	1.0	0.4	2.7	0.8	-0.1	0.5
Eurozone	-0.3	0.9	1.9	1.7	1.6	1.5	0.6	0.0	0.2	1.3
Indonesia	5.6	5.0	4.9	5.0	5.3	6.4	6.4	6.4	3.5	4.5
Malaysia	4.7	6.0	5.0	4.2	4.5	2.1	3.1	2.1	2.1	2.7
Philippines	7.1	6.2	5.9	6.8	6.4	2.9	4.2	1.4	1.8	2.9
Singapore	4.4	2.9	2.0	2.0	2.8	2.4	1.0	-0.5	-0.5	1.2
Thailand	2.9	0.9	2.9	3.2	3.4	2.2	1.9	-0.9	0.2	1.6
Vietnam	5.4	6.0	6.7	6.2	6.6	6.6	4.1	0.6	2.7	4.0
China	7.7	7.3	6.9	6.7	6.5	2.6	2.0	1.4	2.0	1.8
Hong Kong	3.1	2.5	2.4	1.0	2.0	4.3	4.4	3.0	2.6	1.5
Taiwan	2.2	4.0	0.7	1.5	2.5	0.8	1.2	-0.3	1.4	1.2
Korea	2.9	3.3	2.6	2.7	2.5	1.3	1.3	0.7	1.0	1.8
India*	6.5	7.2	7.9	7.2	7.6	9.5	6.0	4.9	4.5	5.0

\* fiscal year ending Mar

## Policy & exchange rate forecasts

	Policy interest rates, eop					Exchange rates, eop				
	current	1Q17	2Q17	3Q17	4Q17	current	1Q17	2Q17	3Q17	4Q17
US	0.75	1.00	1.25	1.50	1.75	...	...	...	...	...
Japan	-0.10	-0.10	-0.10	-0.10	-0.10	114.3	111	113	114	115
Eurozone	0.00	0.00	0.00	0.00	0.00	1.051	1.08	1.08	1.07	1.07
Indonesia	4.75	4.75	4.75	5.00	5.00	13,389	13,339	13,518	13,697	13,876
Malaysia	3.00	3.00	3.00	3.00	3.00	4.46	4.46	4.56	4.67	4.78
Philippines	3.00	3.25	3.50	3.50	3.50	50.4	49.8	50.2	50.7	51.1
Singapore	n.a.	n.a.	n.a.	n.a.	n.a.	1.41	1.44	1.45	1.46	1.48
Thailand	1.50	1.50	1.50	1.50	1.50	35.1	36.3	36.5	36.6	36.8
Vietnam^	6.50	6.50	6.50	6.50	6.50	22,830	22,782	22,782	22,782	22,782
China*	4.35	4.35	4.35	4.35	4.35	6.90	6.93	7.02	7.11	7.19
Hong Kong	n.a.	n.a.	n.a.	n.a.	n.a.	7.76	7.78	7.78	7.78	7.78
Taiwan	1.38	1.38	1.38	1.38	1.38	31.0	32.2	32.4	32.5	32.7
Korea	1.25	1.25	1.25	1.25	1.25	1,154	1,199	1,201	1,204	1,206
India	6.25	6.25	6.25	6.25	6.25	66.7	69.6	70.5	71.4	72.4

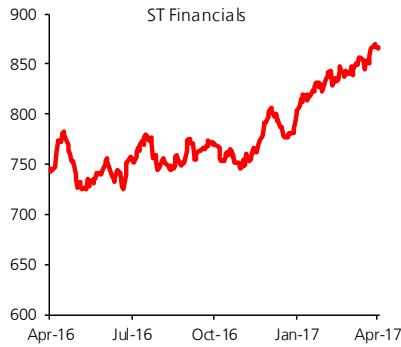
^ prime rate; \* 1-yr lending rate

## Market prices

	Policy rate	10Y bond yield		FX		Equities		
	Current (%)	Current (%)	1wk chg (bps)	Current	1wk chg (%)	Index	Current	1wk chg (%)
US	0.75	2.50	13	101.7	0.6	S&P 500	2,375	0.2
Japan	0.10	0.07	2	113.9	-1.0	Topix	1,555	1.4
Eurozone	0.00	0.34	14	1.058	0.0	Eurostoxx	3,387	2.4
Indonesia	4.75	7.49	-5	13350	-0.1	JCI	5,410	0.5
Malaysia	3.00	4.15	13	4.45	-0.2	KLCI	1,727	2.0
Philippines	3.00	4.96	66	50.3	-0.1	PCI	7,314	1.1
Singapore	Ccy policy	2.29	-3	1.412	-0.6	FSSTI	3,122	0.4
Thailand	1.50	2.73	6	35.1	-0.4	SET	1,554	-0.3
China	4.35	...	...	6.90	-0.4	S'hai Comp	3,234	0.2
Hong Kong	Ccy policy	1.94	194	7.76	0.0	HSI	23,596	-1.4
Taiwan	1.38	1.14	5	31.0	-0.9	TWSE	9,683	-0.9
Korea	1.25	2.25	8	1158	-2.1	Kospi	2,081	-0.6
India	6.25	6.88	-5	66.7	0.0	Sensex	29,048	0.8

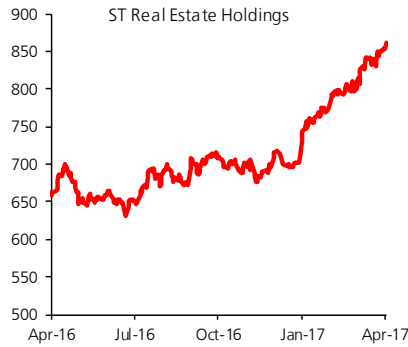
Sources: Data for all charts and tables are from CEIC, Bloomberg Finance L.P. and DBS Group Research (forecasts and transformations).

**FTSE ST Financials**



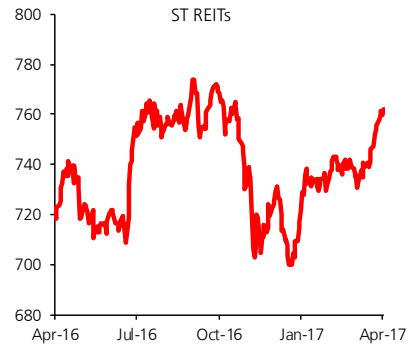
12 mth: 16.6%      YTD: 10.9%  
1 mth: 2.8%      1 Wk: 0.1%

**FTSE ST Real Estate Holdings**



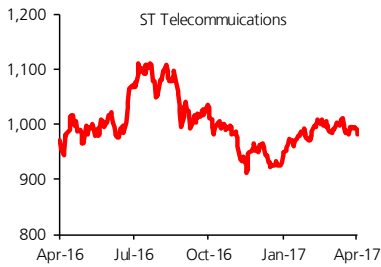
12 mth: 29.9%      YTD: 21.6%  
1 mth: 5.5%      1 Wk: 1.2%

**FTSE ST REITs**



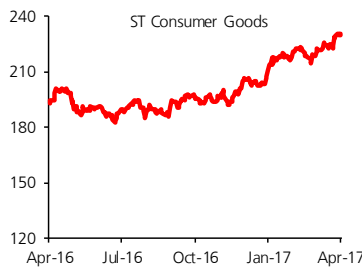
12 mth: 5.3%      YTD: 7.0%  
1 mth: 3.3%      1 Wk: 0.6%

**FTSE ST Telecommunications**



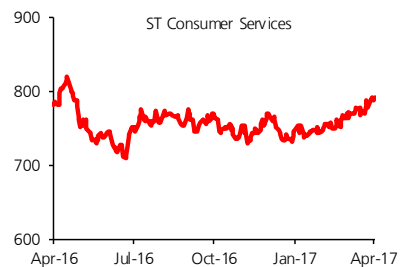
12 mth: 26.6%      YTD: 6.1%  
1 mth: 6.1%      1 Wk: 1.3%

**FTSE ST Consumer Goods**



12 mth: 19.4%      YTD: 12.9%  
1 mth: 3.9%      1 Wk: 0.6%

**FTSE ST Consumer Services**



12 mth: 0.6%      YTD: 7.2%  
1 mth: 2.2%      1 Wk: 0.5%

**Shanghai Composite Index**



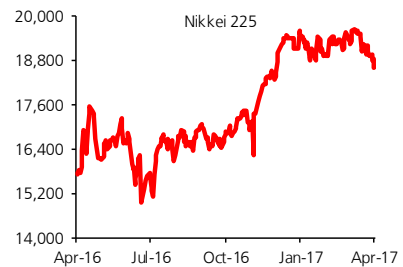
12 mth: 7.6%      YTD: 5.7%  
1 mth: 1.2%      1 Wk: 2.2%

**Hang Seng Index**



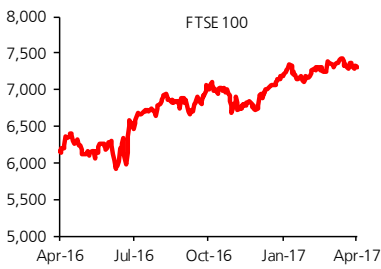
12 mth: 20.1%      YTD: 10.3%  
1 mth: 2.5%      1 Wk: -0.1%

**Nikkei Index**



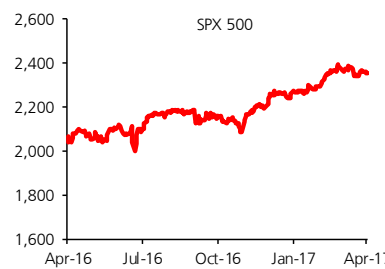
12 mth: 18.3%      YTD: -2.7%  
1 mth: -3.9%      1 Wk: -2.4%

**FTSE100 (UKX Index)**



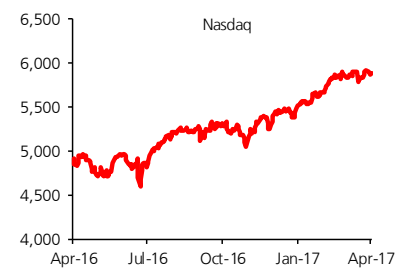
12 mth: 18.5%      YTD: 2.2%  
1 mth: -0.5%      1 Wk: -0.9%

**S&P500 (SPX Index)**



12 mth: 14.1%      YTD: 5.3%  
1 mth: -0.5%      1 Wk: -0.4%

**NASDAQ Index**

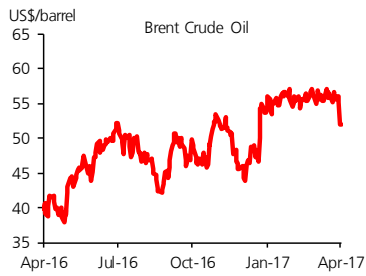


12 mth: 19.5%      YTD: 9.2%  
1 mth: 0.8%      1 Wk: -0.6%

Source: Datastream, Bloomberg Finance L.P., DBS Bank

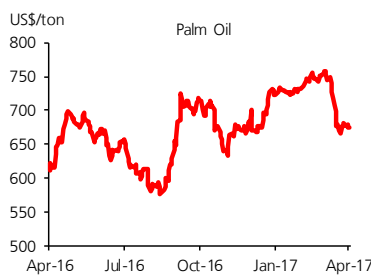


**Brent Crude Oil**



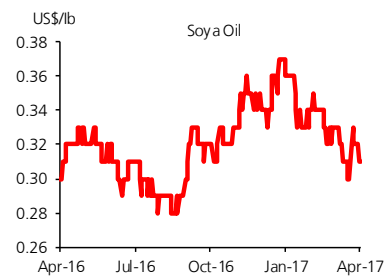
12 mth: 3.6%      YTD: 1.0%  
1 mth: 0.6%      1 Wk: 0.2%

**Palm Oil**



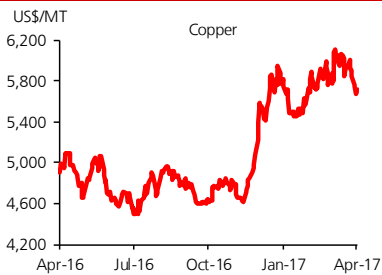
12 mth: 3.4%      YTD: 0.5%  
1 mth: -1.3%      1 Wk: -0.1%

**Soya Oil**



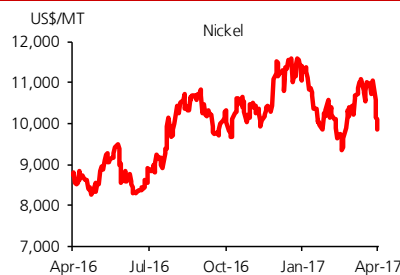
12 mth: 182.8%      YTD: -9.2%  
1 mth: 54.7%      1 Wk: 15.7%

**Copper**



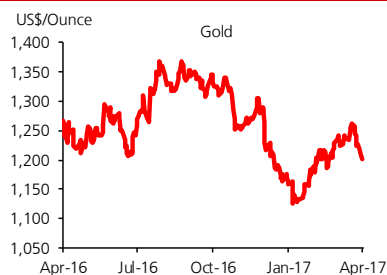
12 mth: -35.4%      YTD: -4.0%  
1 mth: 1.8%      1 Wk: 6.4%

**Steel**



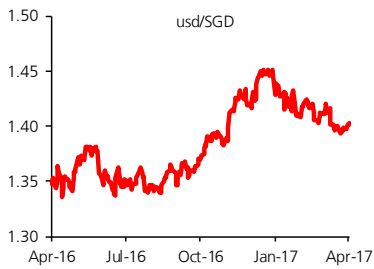
12 mth: 50.0%      YTD: 50.0%  
1 mth: 0.0%      1 Wk: 0.0%

**Gold**



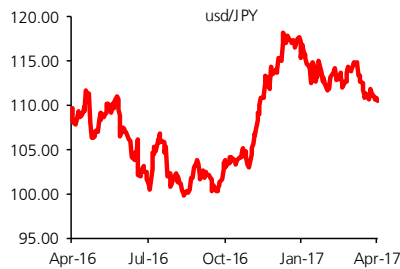
12 mth: 30.2%      YTD: -5.7%  
1 mth: -6.5%      1 Wk: -6.8%

**USD/SGD**



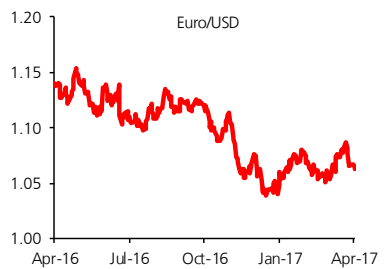
12 mth: 0.9%      YTD: -5.3%  
1 mth: -2.8%      1 Wk: -1.0%

**USD/JPY**



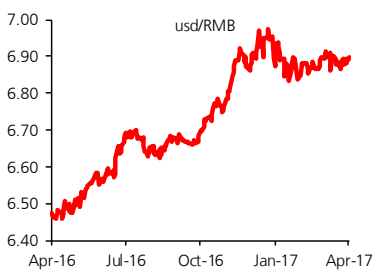
12 mth: -6.6%      YTD: 1.2%  
1 mth: 0.7%      1 Wk: -0.3%

**Euro/USD**



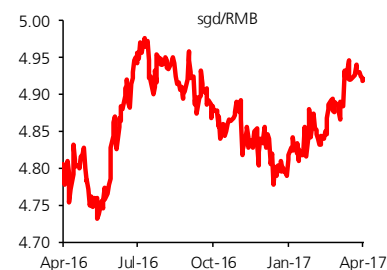
12 mth: 6.5%      YTD: -0.8%  
1 mth: 0.0%      1 Wk: 0.0%

**USD/RMB**



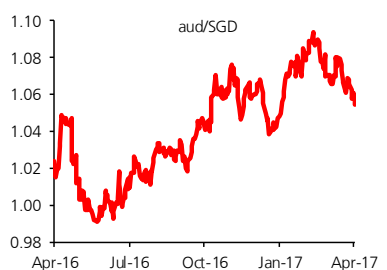
12 mth: 10878.0%      YTD: 10882.0%  
1 mth: 10934.0%      1 Wk: 10854.0%

**SGD/RMB**



12 mth: 112.8%      YTD: 113.1%  
1 mth: 112.7%      1 Wk: 113.9%

**AUD/SGD**



12 mth: 647.8%      YTD: 647.7%  
1 mth: 647.5%      1 Wk: 646.3%

Source: Datastream, Bloomberg Finance L.P., DBS Bank

At A Glance					Announced Dividends and Capital Issues						
<b>Currencies</b>					<b>Company</b>	<b>Type</b>	<b>Particulars</b>	<b>Ex Date</b>	<b>Paid/ Payable</b>		
		<b>Last Close</b>	<b>Pts chg</b>	<b>% Chg 1 wk</b>							
SG\$/US\$	▲	1.41	0.0	0.3	CIMB FTSE ASEAN40 100	DIVIDEND	USD 0.21 TAX EXEMPT	13-Apr-17	27-Apr-17		
Yen/US\$	▼	111.29	(0.3)	(0.3)	CIMB FTSE ASEAN40 100	DIVIDEND	USD 0.14 ONE-TIER TAX	13-Apr-17	27-Apr-17		
US\$/Euro	▲	0.95	0.0	0.8	SUNNINGDALE TECH LTD	DIVIDEND	SGD 0.06 ONE-TIER TAX	13-Apr-17	02-May-17		
AUS\$/US\$	▲	1.33	0.0	0.1	STARHUB LTD	DIVIDEND	SGD 0.05 ONE-TIER TAX	17-Apr-17	03-May-17		
Pound/US\$	▲	1.24	0.0	0.4	STRAITS TRADING CO. LTD	DIVIDEND	SGD 0.06 ONE-TIER TAX	17-Apr-17	05-May-17		
<b>Other Important Indicators</b>					IFAST CORPORATION LTD.	DIVIDEND	SGD 0.0075 ONE-TIER TAX	18-Apr-17	03-May-17		
		<b>Last Close</b>	<b>Pts chg 1wk</b>	<b>% Chg 1 wk</b>	ROXY-PACIFIC HOLDINGS LIMITED	DIVIDEND	SGD 0.00622 ONE-TIER TAX	18-Apr-17	03-May-17		
Gold	▲	1254.95	1.6	0.1	ROXY-PACIFIC HOLDINGS LIMITED	DIVIDEND	SGD 0.00542 ONE-TIER TAX	18-Apr-17	03-May-17		
Crude Oil	▲	52.24	1.6	3.2	CEI LIMITED	DIVIDEND	SGD 0.048 ONE-TIER TAX	19-Apr-17	08-May-17		
US\$ Yield 10-year	▼	2.38	(0.0)	(0.2)	CEI LIMITED	DIVIDEND	SGD 0.004 ONE-TIER TAX	19-Apr-17	08-May-17		
<b>Important Dates (Singapore)</b>					M1 LIMITED	DIVIDEND	SGD 0.059 ONE-TIER TAX	19-Apr-17	28-Apr-17		
<b>Event</b>	<b>Period</b>	<b>Date</b>									
Retail Sales SA MoM	Feb	12-Apr-17									
Retail Sales YoY	Feb	12-Apr-17									
Retail Sales Ex Auto YoY	Feb	12-Apr-17									
Non-oil Domestic Exports SA MoM	Mar	17-Apr-17									
Electronic Exports YoY	Mar	17-Apr-17									
Non-oil Domestic Exports YoY	Mar	17-Apr-17									
Automobile COE Open Bid Cat B	Apr	19-Apr-17									
Automobile COE Open Bid Cat A	Apr	19-Apr-17									
Automobile COE Open Bid Cat E	Apr	19-Apr-17									
CPI Core YoY	Mar	24-Apr-17									
CPI YoY	Mar	24-Apr-17									
CPI NSA MoM	Mar	24-Apr-17									
Industrial Production YoY	Mar	26-Apr-17									
Industrial Production SA MoM	Mar	26-Apr-17									
Credit Card Billings SGD	Mar	28-Apr-17									
Credit Card Bad Debts SGD	Mar	28-Apr-17									
Money Supply M2 YoY	Mar	28-Apr-17									
Money Supply M1 YoY	Mar	28-Apr-17									
Bank Loans and Advances YoY	Mar	28-Apr-17									
Unemployment rate SA	1Q	28-Apr-17									
URA Private Home Prices QoQ	1Q F	28-Apr-17									
					UNITED OVERSEAS INSURANCE LTD	DIVIDEND	SGD 0.02 ONE-TIER TAX	19-Apr-17	03-May-17		
					UNITED OVERSEAS INSURANCE LTD	DIVIDEND	SGD 0.12 ONE-TIER TAX	19-Apr-17	03-May-17		
					GREAT EASTERN HLDGS LTD	DIVIDEND	SGD 0.4 ONE-TIER TAX	20-Apr-17	08-May-17		
					SEMBCORP INDUSTRIES LTD	DIVIDEND	SGD 0.04 ONE-TIER TAX	24-Apr-17	16-May-17		
					CHINA AVIATION OIL(S) CORP LTD	DIVIDEND	SGD 0.045 ONE-TIER TAX	25-Apr-17	09-May-17		
					SEMBCORP MARINE LTD	DIVIDEND	SGD 0.01 ONE-TIER TAX	25-Apr-17	12-May-17		
					SINGAPORE TECH ENGINEERING LTD	DIVIDEND	SGD 0.1 ONE-TIER TAX	25-Apr-17	09-May-17		
					KEPPEL CORPORATION LIMITED	DIVIDEND	SGD 0.12 ONE-TIER TAX	26-Apr-17	11-May-17		
					KEPPEL TELE & TRAN	DIVIDEND	SGD 0.045 ONE-TIER TAX	26-Apr-17	12-May-17		
					LEE METAL GROUP LTD	DIVIDEND	SGD 0.01 ONE-TIER TAX	26-Apr-17	22-May-17		
					SING INVESTMENTS & FINANCE LTD	DIVIDEND	SGD 0.05 ONE-TIER TAX	26-Apr-17	09-May-17		
					UNITED OVERSEAS BANK LTD	DIVIDEND	SCRIP DIV SCHEM SGD 0.35 ONE-TIER TAX	26-Apr-17	13-Jun-17		
					CITY DEVELOPMENTS LIMITED	DIVIDEND	SGD 0.04 ONE-TIER TAX	27-Apr-17	22-May-17		
					CITY DEVELOPMENTS LIMITED	DIVIDEND	SGD 0.08 ONE-TIER TAX	27-Apr-17	22-May-17		
					DESIGN STUDIO GROUP LTD.	DIVIDEND	SGD 0.04 ONE-TIER TAX	27-Apr-17	17-May-17		
					DESIGN STUDIO GROUP LTD.	DIVIDEND	SGD 0.0125 ONE-TIER TAX	27-Apr-17	17-May-17		
					FOOD EMPIRE HOLDINGS LIMITED	DIVIDEND	SGD 0.006 ONE-TIER TAX	27-Apr-17	19-May-17		
					PROCUJRI CORPORATION LIMITED	DIVIDEND	SGD 0.00475 ONE-TIER TAX	27-Apr-17	11-May-17		
					QAF LTD	DIVIDEND	SCRIP DIV SCHEM SGD 0.04 ONE-TIER TAX	27-Apr-17			
					SINGAPORE O&G LTD.	DIVIDEND	SGD 0.0157 ONE-TIER TAX	27-Apr-17	15-May-17		
					SMARTFLEX HOLDINGS LTD	DIVIDEND	SGD 0.01 ONE-TIER TAX	27-Apr-17	12-May-17		
					BBR HOLDINGS (S) LTD	DIVIDEND	SGD 0.002 ONE-TIER TAX	28-Apr-17	23-May-17		
					BBR HOLDINGS (S) LTD	DIVIDEND	SGD 0.004 ONE-TIER TAX	28-Apr-17	23-May-17		
					GOLDEN AGRIC-RESOURCES LTD	DIVIDEND	SGD 0.00635	28-Apr-17	11-May-17		
					OKP HOLDINGS LIMITED	DIVIDEND	SGD 0.008 ONE-TIER TAX	28-Apr-17	17-May-17		
					OKP HOLDINGS LIMITED	DIVIDEND	SGD 0.007 ONE-TIER TAX	28-Apr-17	17-May-17		
					SARINE TECHNOLOGIES LTD	DIVIDEND	USD 0.025 LESS TAX	28-Apr-17	11-May-17		
					TALKMED GROUP LIMITED	DIVIDEND	SGD 0.02283 ONE-TIER TAX	28-Apr-17	11-May-17		
					VICOM LTD	DIVIDEND	SGD 0.1 ONE-TIER TAX	28-Apr-17	11-May-17		
					VICOM LTD	DIVIDEND	SGD 0.085 ONE-TIER TAX	28-Apr-17	11-May-17		
<b>Upcoming IPOs</b>											
Nil											
<b>Recent IPO Trading</b>											
<b>Name</b>	<b>IPO Pricing</b>	<b>Closing Price 7 Apr</b>	<b>Sector</b>	<b>Listing Date</b>	<b>Shares Offered</b>	<b>IPO Mkt Cap</b>					
Samurai 2K Aerosol Ltd	0.20	0.230	Chemicals	16/01/2017	100	20					
Kimly Limited	0.25	0.480	Food & Drug Retailers	20/03/2017	1,155	289					
Unusual Ltd	0.20	0.200	Media	10/04/2017	643	129					

Source: Bloomberg Finance L.P.

April 2017

Mon	Tues	Wed	Thu	Fri
3	4	5	6	7
Purchasing Managers Index Electronics Sector Index URA Private Home Prices QoQ		Nikkei Singapore PMI Automobile COE Open Bid Cat B Automobile COE Open Bid Cat E		EMAS Offshore Ltd 2Q 17  Foreign Reserves GDP YoY GDP SAAR QoQ
10	11	12	13	14
SPH REIT 2Q 17		SPH 2Q 17 Soilbuild Business 1Q 17  Retail Sales SA MoM Retail Sales YoY Retail Sales Ex Auto YoY		
17	18	19	20	21
M1 1Q 17 Keppel Infrastructure Trust 1Q 17 Keppel DC REIT 1Q 17 M1 1Q 17 Qian Hu Corp 1Q 17 First Real Estate Investment Trust 1Q 17  Non-oil Domestic Exports SA MoM Electronic Exports YoY Non-oil Domestic Exports YoY	Keppel T & T 1Q 17	CapitaLand Commercial Trust 1Q 17 China Aviation Oil Singapore 1Q 17 Keppel REIT 1Q 17 United Overseas Insurance 1Q 17  Automobile COE Open Bid Cat A Automobile COE Open Bid Cat B Automobile COE Open Bid Cat E	CapitaLand Mall Trust 1Q 17 Keppel Corp 1Q 17 Cache Logistics Trust 1Q 17	Ascott Residence Trust 1Q 17 CapitaLand Retail China Trut 1Q 17 CapitaLand Ltd 1Q 17 Frasers Commercial Trust 2Q 17
24	25	26	27	28
Mapletree Industrial Trust 4Q 17  CPI Core YoY CPI YoY CPI NSA MoM	Parkway Life REIT 1Q 17 Mapletree Commercial Trust 4Q 17 Ho Bee Land 1Q 17	MAGC 4Q 17  Industrial Production YoY Industrial Production SA MoM		United Overseas Bank 1Q 17 Venture Corp 1Q 17  Credit Card Billings SGD Credit Card Bad Debts SGD Money Supply M2 YoY Money Supply M1 YoY Bank Loans and Advances YoY Unemployment rate SA URA Private Home Prices QoQ

Source: Bloomberg Finance L.P., Companies, SGX

## Company Guide

# Frasers Logistics & Industrial Trust

Version 2 | Bloomberg: FLT SP | Reuters: FRAE.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

7 Feb 2017

## BUY

Last Traded Price ( 6 Feb 2017): S\$0.96 (STI : 3,056.91)

Price Target 12-mth: S\$1.10 (15% upside)

Potential Catalyst: Acquisitions

Where we differ: Exchange rates for FY17-19F are pegged to current spot rates

### Analyst

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### What's New

- 1Q17 DPU came in 6.1% above IPO forecasts
- Steady operational results with high occupancy rates
- Minimal expiries in FY17 imply solid income visibility
- Under-gearred balance sheet offers acquisition ammunition

### Price Relative



### Forecasts and Valuation

FY Sep (A\$m)	2016A	2017F	2018F	2019F
Gross Revenue	43.1	162	162	162
Net Property Inc	35.7	137	136	135
Total Return	3.87	85.1	88.4	90.2
Distribution Inc	26.4	96.9	100	102
EPU (S cts)	0.55	6.40	6.59	6.67
EPU Gth (%)	nm	1,070	3	1
DPU (S cts)	1.99	7.28	7.47	7.53
DPU Gth (%)	nm	266	3	1
NAV per shr (S cts)	94.3	93.5	92.7	92.0
PE (X)	174.8	14.9	14.5	14.3
Distribution Yield (%)	2.1	7.6	7.8	7.9
P/NAV (x)	1.0	1.0	1.0	1.0
Aggregate Leverage (%)	29.3	30.6	30.8	30.9
ROAE (%)	0.6	6.8	7.1	7.2

Distn. Inc Chng (%):		2	2	0
Consensus DPU (S cts):		7.1	7.1	7.3
Other Broker Recs:		B: 4	S: 0	H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

## Steady returns with firepower to acquire

**Maintain BUY, TP S\$1.10.** We believe that Frasers Logistics & Industrial Trust (FLT) remains attractive with a prospective yield of close to 7.0%. With an under-gearred balance sheet, FLT has the ability to surprise on the upside through acquisitions, if executed from a myriad of opportunities available from its sponsor. Maintain BUY and TP of S\$1.10.

**Steady returns supported by portfolio of long leases.** FLT 1Q17 came in 6.1% above IPO forecasts, mainly driven by pro-active capital management initiatives which saw lower-than-projected interest costs at 2.8% vs 3.4% (forecasted during IPO). Revenue and net property income of A\$39.7m and A\$30.7m respectively were marginally below forecasts due to a delay in completion of its Martin Bowyer acquisition. Portfolio occupancy is still steady at close to 99%. The forward outlook remains stable given limited expiries over the coming year. Estimates are tweaked higher as we reduce our interest-cost assumptions.

**Visible ROFR pipeline.** The sponsor has granted FLT a right of first refusal (ROFR) over any of the completed income-producing industrial properties it intends to divest. This currently comprises 11 properties which can be acquired in the medium term.

### Valuation:

**BUY maintained, TP S\$1.10.** Our TP is based on DCF and we have not assumed any further acquisitions. Our TP offers 15% upside to current price.

### Key Risks to Our View:

**Currency risk.** As the manager pays its distributions in SGD but earns in AUD, the REIT is exposed to currency fluctuations. The manager attempts to reduce foreign fluctuations by hedging distributions regularly.

### At A Glance

Issued Capital (m shrs)	1,427
Mkt. Cap (S\$m/US\$m)	1,370 / 968
Major Shareholders (%)	
FCL Investments (Industrial) Pte	20.5
TCC Group Investments Limited	6.3
Principal Financial Group	4.3
Free Float (%)	68.9
3m Avg. Daily Val (US\$m)	2.6

ICB Industry : Financials / Real Estate Investment Trusts

**WHAT'S NEW****Straight forward quarter with solid earnings visibility****Summary of results**

- Fraser's Logistics & Industrial Trust (FLT) reported a 1Q17 DPU 1.74 Scts, 6.1% above IPO forecasts.
- This was on the back of a 5.1% rise in distributable income to A\$24.9m.
- Top line and net property income were 0.6% below forecast mainly due to delay in acquisition of the Martin Brower property.
- Interest cost was 21.2% lower than forecasts due to lower-than-projected interest rate of 2.8% achieved vs the 3.4% during IPO forecasts.
- No dividend payable this quarter as the REIT pays dividends on a semi-annual basis.

**Key Metrics**

- Stable occupancy of 99. % as of end-December 2016, which is a notch higher than the 98.2% at IPO.
- For the quarter, rental reversions achieved for the quarter is at an estimated -1.1% for expiring and forward rental renewals.
- The manager has replaced Australian Geographic Retail Pty Ltd lease at 32 Gibbon Road (NSW), which surrendered their lease ahead of expiry, with a new tenant, Tailored Packaging, which signed on for a long tenure till 2025.

- Looking forward, minimal lease expiry in FY17 with only 0.6% of leases up for renewal in the next 12 months.
- Portfolio WALE remains long at 6.9 years implying strong earnings visibility.

**Low leverage empowers REIT to grow**

- Its low leverage of 29.7% post acquisition of three properties (option properties) remains at the lower end of peer average of 33-34%. This implies headroom for acquisition, which will remain as the key upside to earnings estimates.
- The manager believes that the sponsor remains an attractive source of quality acquisition targets.

**Where is the upside?**

- Rolling forward hedges. Management has hedged in distributions (A\$-S\$ rate) till September 2017 at an estimated exchange rate of 1:1. Spot rate now is one A\$ for S\$1.07 implying 7% upside when these hedges are rolled over. As of now, the manager has yet to hedge in the currency past September 2017.
- Acquisitions have not been priced into estimates.

**Quarterly / Interim Income Statement (A\$m)**

FY Sep	4Q2016	1Q2017	% chg qoq
Gross revenue	43.1	39.7	(7.8)
Property expenses	(7.4)	(6.3)	(14.3)
Net Property Income	35.7	33.4	(6.5)
Other Operating expenses	(12.8)	(3.5)	(72.3)
Other Non Opg (Exp)/Inc	(5.7)	0.17	N/A
Net Interest (Exp)/Inc	(3.8)	(4.0)	(6.0)
Exceptional Gain/(Loss)	0.0	0.0	N/A
<b>Net Income</b>	<b>13.4</b>	<b>26.0</b>	<b>94.1</b>
Tax	(6.1)	(3.1)	(49.1)
Minority Interest	0.0	0.0	N/A
<b>Net Income after Tax</b>	<b>7.24</b>	<b>22.9</b>	<b>215.6</b>
Total Return	3.87	22.9	491.3
Non-tax deductible Items	22.5	2.02	(91.0)
Net Inc available for Dist.	26.4	24.9	(5.8)
<b>Ratio (%)</b>			
Net Prop Inc Margin	82.9	84.1	
Dist. Payout Ratio	100.0	100.0	

Source of all data: Company, DBS Bank

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

**Unique pure-play Australia play.** Frasers Logistics & Industrial Trust (FLT) offers investors a unique opportunity to invest in a portfolio of 54 assets (as at end of December 2016) that are concentrated within major industrial markets in Australia, including Melbourne, Sydney and Brisbane. Apart from a geographically diversified portfolio, the REIT's tenants are mainly in the consumer and logistics sectors which are expected to remain resilient and continue growing as Australia's economy transitions itself from being resource-led to consumption-led.

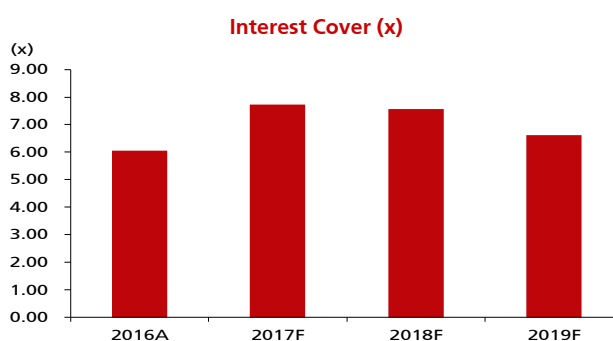
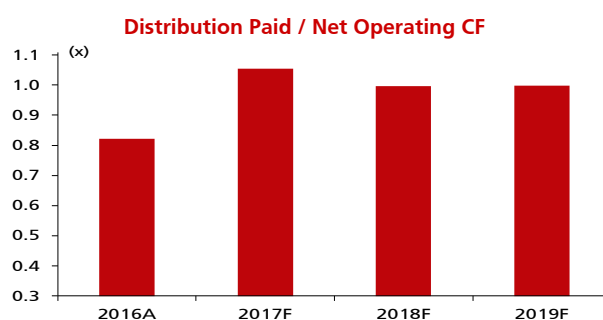
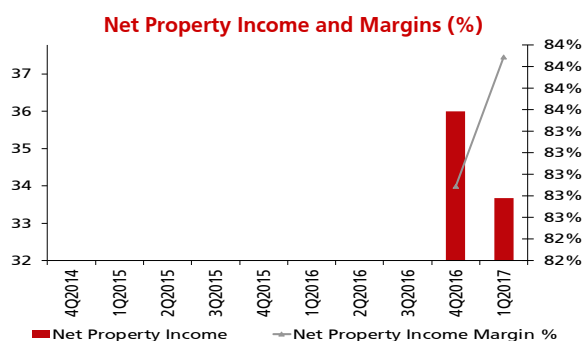
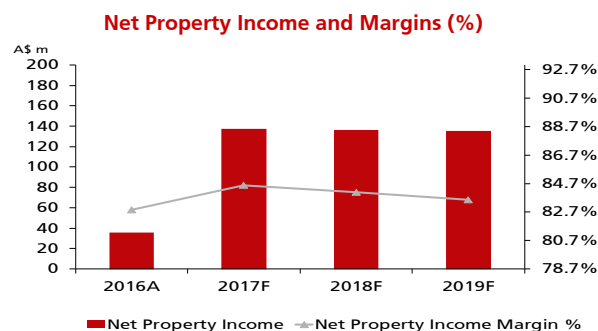
**Long WALE of 6.9 years with in-built organic growth a key trait in current uncertain environment.** In our view, the long WALE by Adjusted Gross Rental Income of 6.9 years, which is longer than the majority of Singapore industrial REITs (between 2.9 and 4.7 years), provides strong cashflow visibility.

In addition, FLT's organic growth is underpinned by in-built rental escalations. All of the leases of the initial portfolio have fixed and/or Consumer Price Index-linked (CPI-linked) increments. The fixed rental increments, which are built into the existing leases, range from 2.5-3.75% which translates to an average annual rental increment of c.3.2% for the Initial Portfolio.

**Predominantly freehold and long leasehold land tenure is a positive.** FLT's portfolio predominantly comprises properties on freehold (57.6% by appraised value) and long leasehold land (32.0% on leasehold land with a tenure of more than 80 years). FLT's weighted land lease expiry of close to 80 years is double that of other industrial S-REITs' average of 41 years. Based on our estimates, the component of capital return based on the remaining leasehold tenure on FLT's annual distribution yield (at c.0.5%) is much smaller than the average of 2-3% for most industrial S-REITs.

**Strong sponsor with long track record of development and management of Australian Industrial assets.** FLT's sponsor Frasers Property Australia Pty Limited (FPA) offers FLT access to a strong and fully integrated real estate platform. In particular, FPA's industrial business has an end-to-end capability and leadership in the development of industrial assets, having developed over A\$3.5bn worth of industrial assets since 2001.

The sponsor has granted FLT a right of first refusal (ROFR) over any of the completed income-producing industrial properties it intends to divest. This currently comprises 11 existing properties in Australia.



Source: Company, DBS Bank

## Frasers Logistics & Industrial Trust

### Balance Sheet:

**Balance sheet; gearing up for acquisitions.** Gearing is projected to remain fairly stable at c.31% in the medium term. The low gearing level allows significant headroom for the manager to execute on opportunistic acquisitions when the time arises. The manager has a medium-term target gearing level of c.35-40%, implying there is headroom to gear up.

**Healthy financial metrics.** The REIT has minimal debt expiries till FY19 with a weighted average cost of borrowing of 2.8%. Interest coverage ratio remains healthy at c.9.0x. Close to 78% of the debt is hedged, implying minimal volatility to distributions in the event of an interest rate hike.

### Share Price Drivers:

**Executing on acquisitions.** Post the completion of the planned acquisition of Martin Brower property, gearing remains undemanding at c.31%. Despite this, we believe that the portfolio remains under-gearred in relation to peers and optimal level. With opportunities abound in the market, we believe that the execution of more acquisitions which are projected to be accretive to earnings, will be a catalyst for its stock price.

### Key Risks:

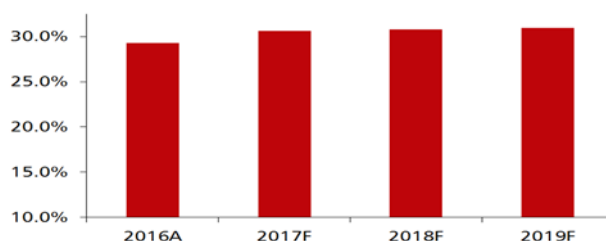
**Single-country concentration.** While FLT provides exposure to the Australian industrial market, as a pure-play REIT, its portfolio is 100% concentrated in Australia. However, this risk is mitigated by the fact that its portfolio is diversified across five states in Australia and various industries.

The geographic and tenant diversity across various industries imply that the REIT is not dependent and over-reliant on the performance of any particular industry.

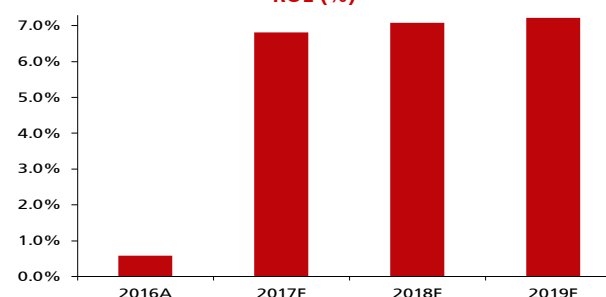
### Company Background

**FLT offers investors a unique opportunity to gain exposure to the growing Australia industrial and logistics sector.** Frasers Logistics & Industrial Trust (FLT) offers investors a unique opportunity to invest in a quality portfolio of industrial assets in Australia. FLT's initial portfolio consists of 54 properties spread across five states in Australia with an appraised value of A\$1.74bn. The initial portfolio is well diversified across the key states of Victoria (40% of appraised value), New South Wales (28%) and Queensland (28%).

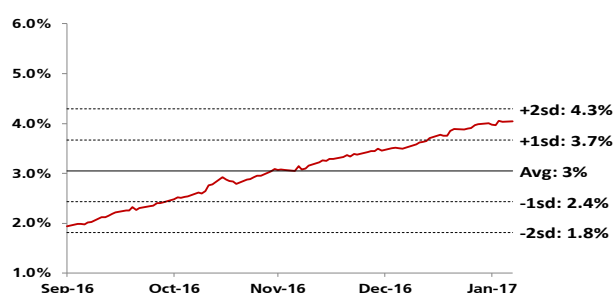
Aggregate Leverage (%)



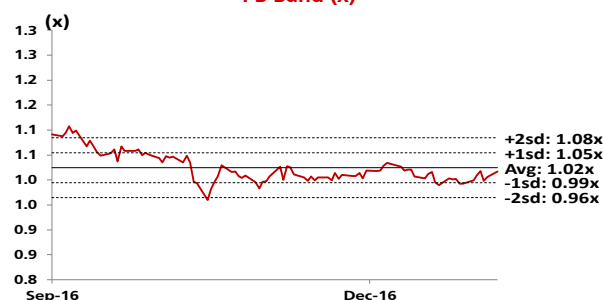
ROE (%)



Distribution Yield (%)



PB Band (x)



Source: Company, DBS Bank



**Income Statement (A\$m)**

FY Sep	2016A	2017F	2018F	2019F
Gross revenue	43.1	162	162	162
Property expenses	(7.4)	(24.9)	(25.7)	(26.5)
<b>Net Property Income</b>	<b>35.7</b>	<b>137</b>	<b>136</b>	<b>135</b>
Other Operating expenses	(12.8)	(14.1)	(14.3)	(14.2)
Other Non Opg (Exp)/Inc	(5.7)	0.0	0.0	0.0
Net Interest (Exp)/Inc	(3.8)	(15.9)	(16.1)	(18.3)
Exceptional Gain/(Loss)	0.0	(12.5)	(7.7)	(2.8)
<b>Net Income</b>	<b>13.4</b>	<b>94.6</b>	<b>98.2</b>	<b>100</b>
Tax	(6.1)	(9.5)	(9.8)	(10.0)
Minority Interest	0.0	0.0	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0
<b>Net Income After Tax</b>	<b>7.24</b>	<b>85.1</b>	<b>88.4</b>	<b>90.2</b>
Total Return	3.87	85.1	88.4	90.2
Non-tax deductible Items	22.5	11.8	11.9	11.8
Net Inc available for Dist.	26.4	96.9	100	102
<b>Growth &amp; Ratio</b>				
Revenue Gth (%)	N/A	276.3	0.0	0.0
N Property Inc Gth (%)	nm	284.2	(0.6)	(0.6)
Net Inc Gth (%)	nm	1,075.2	3.9	2.0
Dist. Payout Ratio (%)	100.0	100.0	100.0	100.0
Net Prop Inc Margins (%)	82.9	84.6	84.1	83.6
Net Income Margins (%)	16.8	52.5	54.6	55.7
Dist to revenue (%)	61.3	59.8	61.9	62.9
Managers & Trustee's fees	29.7	8.7	8.8	8.7
ROAE (%)	0.6	6.8	7.1	7.2
ROA (%)	0.4	4.8	4.9	5.0
ROCE (%)	0.7	6.2	6.1	6.1
Int. Cover (x)	6.0	7.7	7.6	6.6

Source: Company, DBS Bank

Mainly driven by organic growth from annual escalations of 3.0-3.5%.

## Fraser's Logistics &amp; Industrial Trust

## Quarterly / Interim Income Statement (A\$m)

FY Sep	4Q2016	1Q2017
Gross revenue	43.1	39.7
Property expenses	(7.4)	(6.3)
Net Property Income	35.7	33.4
Other Operating expenses	(12.8)	(3.5)
Other Non Opg (Exp)/Inc	(5.7)	0.17
Net Interest (Exp)/Inc	(3.8)	(4.0)
Exceptional Gain/(Loss)	0.0	0.0
<b>Net Income</b>	<b>13.4</b>	<b>26.0</b>
Tax	(6.1)	(3.1)
Minority Interest	0.0	0.0
<b>Net Income after Tax</b>	<b>7.24</b>	<b>22.9</b>
Total Return	3.87	22.9
Non-tax deductible Items	22.5	2.02
Net Inc available for Dist.	26.4	24.9
<b>Growth &amp; Ratio</b>		
Revenue Gth (%)	N/A	(8)
N Property Inc Gth (%)	nm	(7)
Net Inc Gth (%)	nm	216
Net Prop Inc Margin (%)	82.9	84.1
Dist. Payout Ratio (%)	100.0	100.0

Performance beats IPO forecasts.

## Balance Sheet (A\$m)

FY Sep	2016A	2017F	2018F	2019F
Investment Properties	1,678	1,753	1,757	1,761
Other LT Assets	0.0	0.0	0.0	0.0
Cash & ST Invts	85.8	50.8	51.2	51.4
Inventory	0.0	0.0	0.0	0.0
Debtors	4.96	8.10	8.10	8.10
Other Current Assets	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>1,768</b>	<b>1,812</b>	<b>1,816</b>	<b>1,820</b>
ST Debt	0.0	0.0	0.0	0.0
Creditor	2.24	8.10	8.10	8.10
Other Current Liab	17.2	9.46	9.82	10.0
LT Debt	492	537	541	545
Other LT Liabilities	8.21	8.21	8.21	8.21
Unit holders' funds	1,249	1,249	1,249	1,249
Minority Interests	0.0	0.0	0.0	0.0
<b>Total Funds &amp; Liabilities</b>	<b>1,768</b>	<b>1,812</b>	<b>1,816</b>	<b>1,820</b>
Non-Cash Wkg. Capital	(14.5)	(9.5)	(9.8)	(10.0)
Net Cash/(Debt)	(406)	(486)	(489)	(493)
<b>Ratio</b>				
Current Ratio (x)	4.7	3.4	3.3	3.3
Quick Ratio (x)	4.7	3.4	3.3	3.3
Aggregate Leverage (%)	29.3	30.6	30.8	30.9
Z-Score (X)	2.5	2.6	2.7	2.6

Gearing remains low at close to 30%.

Source: Company, DBS Bank

## Cash Flow Statement (A\$m)

FY Sep	2016A	2017F	2018F	2019F
Pre-Tax Income	13.4	94.6	98.2	100
Dep. & Amort.	0.0	0.0	0.0	0.0
Tax Paid	0.0	(17.2)	(9.5)	(9.8)
Associates & JV Inc/(Loss)	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	12.1	2.72	0.0	0.0
Other Operating CF	6.69	11.8	11.9	11.8
<b>Net Operating CF</b>	<b>32.1</b>	<b>91.9</b>	<b>101</b>	<b>102</b>
Net Invnt in Properties	(1,365)	(75.0)	(4.0)	(4.0)
Other Invnts (net)	0.0	0.0	0.0	0.0
Invnts in Assoc. & JV	0.0	0.0	0.0	0.0
Div from Assoc. & JVs	0.0	0.0	0.0	0.0
Other Investing CF	(29.6)	0.0	0.0	0.0
<b>Net Investing CF</b>	<b>(1,394)</b>	<b>(75.0)</b>	<b>(4.0)</b>	<b>(4.0)</b>
Distribution Paid	(26.4)	(96.9)	(100)	(102)
Chg in Gross Debt	491	45.0	4.00	4.00
New units issued	982	0.0	0.0	0.0
Other Financing CF	(9.0)	0.0	0.0	0.0
<b>Net Financing CF</b>	<b>1,438</b>	<b>(51.9)</b>	<b>(96.3)</b>	<b>(97.9)</b>
Currency Adjustments	0.0	0.0	0.0	0.0
Chg in Cash	75.8	(35.0)	0.36	0.20
Operating CFPS (S cts)	1.52	6.70	7.50	7.55
Free CFPS (S cts)	(101)	1.27	7.20	7.25

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	29 Jul 16	0.99	1.10	BUY
2:	29 Aug 16	0.97	1.10	BUY
3:	26 Sep 16	0.99	1.10	BUY
4:	03 Nov 16	0.97	1.10	BUY
5:	08 Nov 16	0.99	1.10	BUY
6:	06 Jan 17	0.95	1.10	BUY

Source: DBS Bank

Analyst: Derek TAN

Mervin SONG CFA

Rachel TAN

# Singapore Company Guide

# Sheng Siong Group

Version 8 | Bloomberg: SSG SP | Reuters: SHEN.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

24 Feb 2017

## BUY

Last Traded Price ( 23 Feb 2017): S\$0.96 (STI : 3,137.57)

Price Target 12-mth: S\$1.13 (18% upside) (Prev S\$1.19)

Potential Catalyst: Store expansion

Where we differ: In line

### Analyst

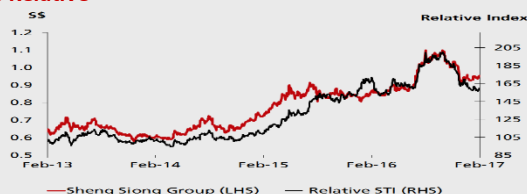
Alfie YEO +65 6682 3717 alfieyao@dbs.com

Andy SIM CFA +65 6682 3718 andysim@dbs.com

### What's New

- **4Q16 results in line, growth led by new stores**
- **Final DPS of 1.85 Scts declared**
- **Gross margins at record high, expect continued margin expansion in FY17F**
- **Maintain BUY, TP S\$1.13**

### Price Relative



### Forecasts and Valuation

FY Dec (S\$ m)	2015A	2016A	2017F	2018F
Revenue	764	797	803	828
EBITDA	70.6	80.0	86.7	92.2
Pre-tax Profit	67.7	76.2	81.7	86.9
Net Profit	56.8	62.7	67.8	72.1
Net Pft (Pre Ex.)	56.8	62.7	67.8	72.1
Net Pft Gth (Pre-ex) (%)	20.8	10.4	8.2	6.2
EPS (S cts)	3.78	4.17	4.51	4.79
EPS Pre Ex. (S cts)	3.78	4.17	4.51	4.79
EPS Gth Pre Ex (%)	21	10	8	6
Diluted EPS (S cts)	3.78	4.17	4.51	4.79
Net DPS (S cts)	3.50	3.75	4.06	4.31
BV Per Share (S cts)	16.2	16.8	17.2	17.7
PE (X)	25.3	22.9	21.2	19.9
PE Pre Ex. (X)	25.3	22.9	21.2	19.9
P/Cash Flow (X)	19.5	18.4	15.1	16.7
EV/EBITDA (X)	18.5	17.2	15.8	14.8
Net Div Yield (%)	3.7	3.9	4.2	4.5
P/Book Value (X)	5.9	5.7	5.5	5.4
Net Debt/Equity (X)	CASH	CASH	CASH	CASH
ROAE (%)	23.6	25.3	26.6	27.4
Earnings Rev (%):			(5)	(1)
Consensus EPS (S cts):			4.60	4.70
Other Broker Recs:		B: 7	S: 1	H: 2

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

## Stronger margins to drive growth

**Maintain BUY, TP S\$1.13 on more positive signs on margin direction.** We remain positive on Sheng Siong as we see higher margins continuing to drive earnings growth in FY17F. We believe gross margins should be able to sustain at 26% in FY17F, higher than FY16's 25.7%. Gross margins for the past three quarters have proven to be sustainable at 26%, even over the seventh month festive period in 3Q16 when price promotions and discounts to drive volumes typically pull down margins. We expect this run rate to flow through into FY17F leading to comparatively higher gross margins. We have already factored in imminent store closures that have resulted in muted revenue growth projections. Yet due to better margins, we expect earnings growth to continue outpacing topline growth. The stock trades at an attractive 21.2x FY17F PE, 4% dividend yield, and offers an attractive ROE of above 25%. Our TP of S\$1.13 offers a return of 18%.

**4Q16 in line.** 4Q16 results were largely within expectations. Revenue was slightly below our expectations but earnings was made up by record high gross margins of 26.3%. Revenue growth was driven mainly by new stores which grew by 8%, supported by same store sales growth (SSSG) of 0.2%, offset by decline in the Loyang store due to absence of contribution from renovation exercise. Including the Loyang store, SSSG would have declined by 2.7%. Higher gross margins were achieved by more bulk handling and supplier rebates. Sheng Siong declared a final dividend of 1.85 Scts equivalent to a 90% payout ratio for the full year.

### Valuation:

Our target price for Sheng Siong is S\$1.13 based on 25x FY17F PE. The valuation is pegged at +1SD of its historical mean since listing and below regional peers' average of 27x PE.

### Key Risks to Our View:

**Store openings, price competition.** Revenue growth will be led by new store openings. Excessive discounts and promotions in the market by competitors will ultimately result in lower margins.

### At A Glance

Issued Capital (m shrs)	1,504
Mkt. Cap (S\$m/US\$m)	1,436 / 1,017
Major Shareholders (%)	
SS Holdings	29.85
Lim Family	33.99
Free Float (%)	36.16
3m Avg. Daily Val (US\$m)	2.0

ICB Industry : Consumer Services / Food & Drug Retailers

**WHAT'S NEW****Results review**

**4Q16 earnings in line.** 4Q16 earnings of S\$15.4m (+5.7% y-o-y) were within expectations. Revenue was S\$197m (+5.3% y-o-y), driven by new stores. Gross profit margin remained strong, ticking up to 26.3% both sequentially and y-o-y. Operating cost to sales ratio increased to 17.9% (+0.3ppt q-o-q, +0.5ppt y-o-y) on the back of higher headcount and bonus provision. A final dividend of 1.85 Scts was declared, bringing total dividends for the full year to 3.75 Scts.

**New stores driving growth.** Revenue growth of 5.3% y-o-y was mainly driven by new stores. Revenue from new stores grew by 8% y-o-y, while SSSG was 0.2% y-o-y. The temporary closure of Loyang point for renovation saw a loss of sales amounting to 2.9% y-o-y. Annualised sales per square feet for 4Q16 remained relatively flat at S\$1,751 from S\$1,757 in 4Q15. On a sequential basis, revenue fell by 2.7% owing to the seasonally high seventh month festive season in 3Q16.

**Gross margins at 26.3%, an all-time high.** Gross margins hit a record high at 26.3%. This meant that the 26% gross margin was sustained for the third consecutive quarter. There were rebates given for special promotions, volume display and bulk handling. Opex remained constant at S\$35m from the previous quarter, but grew to 17.9% of sales (+0.5ppt over 4Q15) due to better bonuses and higher staff count.

**Higher inventory days a function of shorter run up to the lunar new year.** Inventory days increased to 36 days from 31 days last year and this was led by the higher store count and stocking up activities for the Chinese New Year. The increased headline inventory levels could seem alarming, but we note that Chinese New Year this year fell on 28 and 29 January (compared to 8 & 9 February in 2016), which meant

an 11 day earlier run up to the first day of the Lunar New Year. In that respect, a five-day increase in inventory days still looks reasonable. This has also led to payable days increasing proportionately by five days.

**With key store closures factored in, we see gross margin driving earnings.** The overall performance for 4Q16 was within estimates. While revenue was slightly lower than our forecast, earnings was made up by record high gross margins. We have largely factored in store closures for FY17F (Woodlands and the Verge) resulting in flat revenue growth. However, we anticipate that gross margins would be sustained at the 26% level in FY17F. Our confidence comes from three consecutive quarters of gross margins sustaining at 26% and even despite promotions and discounts through the seventh month festive period. There is more scope for 1) direct sourcing which includes farmlands in Malaysia; 2) higher sales of house brands, which currently constitute less than 10% of turnover; 3) higher fresh mix from the displacement of wet markets in Singapore; 4) more bulk handling as it expands and adds another 45,000 square feet of warehouse space at its Mandai distribution centre. To that end, our FY17F earnings growth is 8% on the back of revenue growth forecast of 1%.

**Maintain BUY, with S\$1.13 TP.** As 4Q16 and FY16 numbers were within estimates, we tweak our numbers only slightly to account for a slightly lower revenue base. This results in slight reduction in earnings of 5%. The stock trades attractively at 21.2x FY17F PE. Our S\$1.13 TP is based on 25x FY17F earnings. We still like Sheng Siong for its earnings growth traction, efficient operations, strong ROE, net cash balance sheet, defensive earnings qualities and dividend yield of c.4%.

**Quarterly / Interim Income Statement (S\$m)**

<b>FY Dec</b>	<b>4Q2015</b>	<b>3Q2016</b>	<b>4Q2016</b>	<b>% chg yoy</b>	<b>% chg qoq</b>
Revenue	187	202	197	5.3	(2.7)
Cost of Goods Sold	(140)	(150)	(145)	3.4	(3.2)
<b>Gross Profit</b>	<b>46.7</b>	<b>52.5</b>	<b>51.8</b>	<b>10.9</b>	<b>(1.2)</b>
Other Oper. (Exp)/Inc	(32.5)	(35.6)	(35.3)	8.6	(0.9)
<b>Operating Profit</b>	<b>14.2</b>	<b>16.9</b>	<b>16.6</b>	<b>16.3</b>	<b>(1.9)</b>
Other Non Opg (Exp)/Inc	1.95	2.21	2.37	21.5	7.0
Associates & JV Inc	0.0	0.0	0.0	-	-
Net Interest (Exp)/Inc	0.31	0.02	0.01	(98.1)	(68.4)
Exceptional Gain/(Loss)	0.0	0.0	0.0	-	-
<b>Pre-tax Profit</b>	<b>16.5</b>	<b>19.1</b>	<b>18.9</b>	<b>14.8</b>	<b>(0.9)</b>
Tax	(1.9)	(3.4)	(3.5)	85.4	1.8
Minority Interest	0.0	0.0	0.0	-	-
<b>Net Profit</b>	<b>14.6</b>	<b>15.7</b>	<b>15.4</b>	<b>5.7</b>	<b>(1.5)</b>
Net profit bef Except.	14.6	15.7	15.4	5.7	(1.5)
EBITDA	19.8	22.8	22.6	14.3	(1.1)
<b>Margins (%)</b>					
Gross Margins	25.0	25.9	26.3		
Opg Profit Margins	7.6	8.3	8.4		
Net Profit Margins	7.8	7.7	7.8		

Source of all data: Company, DBS Bank

**CRITICAL DATA POINTS TO WATCH**

**Earnings Drivers:**

**Store expansion.** Sheng Siong currently operates 43 stores (including Loyang Point which is under renovation). Compared to the other local operators, it has scope to expand its store network, particularly in areas such as Serangoon, Hougang and Seng Kang where it has a low presence. Management targets to ultimately operate 50 stores islandwide. In the past six years, 0-8 stores were opened annually, largely a function of supply of HDB shop space available for tender and Sheng Siong’s ability to win the tenders. Sheng Siong mainly operates in HDB estates.

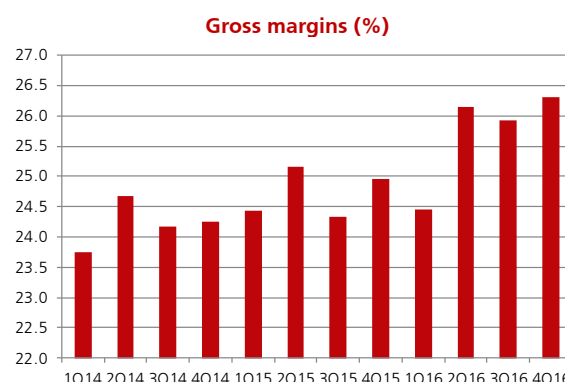
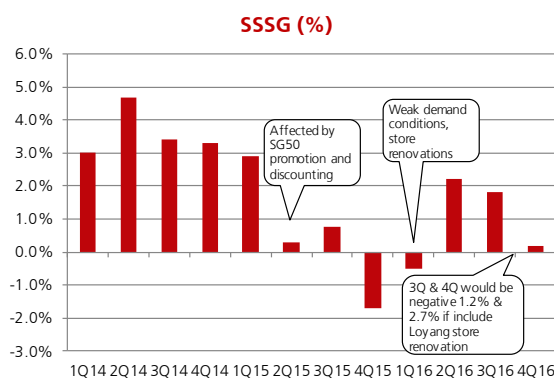
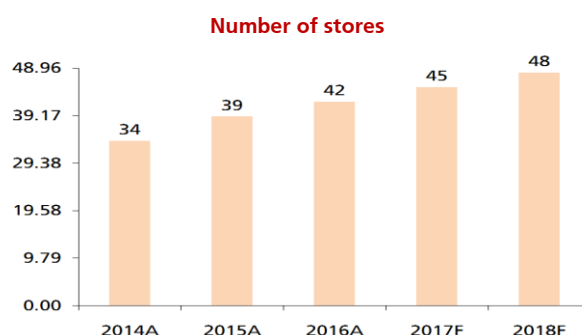
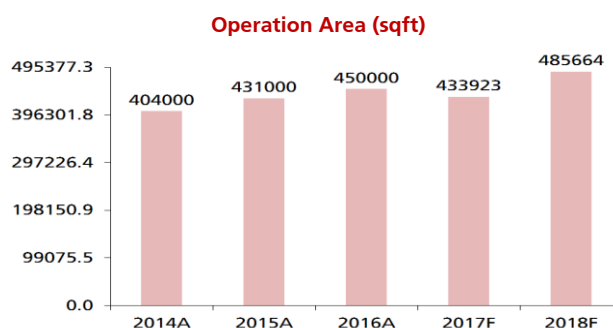
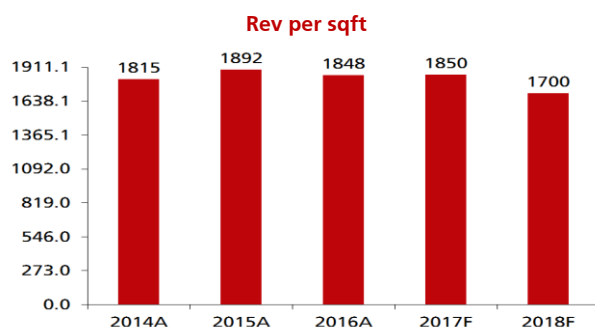
**Gross margin expansion through better sales mix.** The gross margin for fresh products is estimated to be >30%, and close to 20% for non-fresh grocery items. Sheng Siong’s product mix stands at approximately 40% fresh vs 60% non-fresh. We see headroom for sales mix to improve to 50% for each as it skews its store offerings more towards fresh products.

**Mandai Distribution Centre to expand.** The Mandai Distribution Centre allows Sheng Siong to perform direct sourcing and bulk handling. This effectively drives down input costs, resulting in cost savings and better margins. We estimate that the facility is currently running at only 90% of capacity and a new warehouse adjacent to the current one is expected to start construction in FY17F. It will be able to secure more suppliers and products to trade through the distribution centre to effectively enjoy more bulk handling and higher supplier rebates. Margins are expected to trend up as utilisation increases towards full capacity.

**Margin expansion through direct sourcing.** Sheng Siong is increasingly sourcing directly from suppliers such as farms instead of from middlemen. The company has the resources to place large orders, which is welcomed by producers.

**Generating more same-store-sales growth (SSSG) to increase revenue.** Sheng Siong has been able to maintain positive SSSG since 4Q13 (excluding 4Q15, 1Q16) through longer operating hours and renovation of older stores, offering the correct products and effective marketing. 3Q16 and 4Q16’s SSSG have been affected partly by the renovation of the Loyang store. The SSSG would have been positive had Loyang store performed similar to previous year and was not shut for renovation. Maintaining positive SSSG will support earnings growth.

**Kunming store in China to open in 2017.** Its first store in Kunming (40,000 square feet) is expected to commence operations in 2017. Downside for the JV is limited to US\$6m paid-up capital which is sufficient to open 2-3 new stores.



Source: Company, DBS Bank

**Balance Sheet:**

**Net cash of over S\$63m or c.4 Scts per share.** The excess cash allows for strategic store acquisitions if suitable real estate arises for it to expand its store presence in the future. The business generates positive working capital. Inventory is purchased on credit, and quickly turned into cash. Over the past seven years, the business has generated between S\$20-75m of operating cash flow each year. Dividend payout is attractive at 90%. We expect this to be maintained as long as there is no significant requirement for cash funding.

**Share Price Drivers:**

**Strong earnings growth performance.** Sheng Siong's financial performance has consistently met our expectations, delivering earnings growth (5-year CAGR of 18.1% since FY11) through a combination of margin expansion, store growth and SSSG. We believe continued delivery of consistent performance and profit growth will support a strong share price.

**China to be a wildcard.** We believe Sheng Siong's JV in China is a wildcard. If operations prove to be successful, in time to come, China can provide an alternate source of growth. There is scope for the number of stores to increase should Sheng Siong's business model work. Downside remains limited to US\$6m for now should the JV fail.

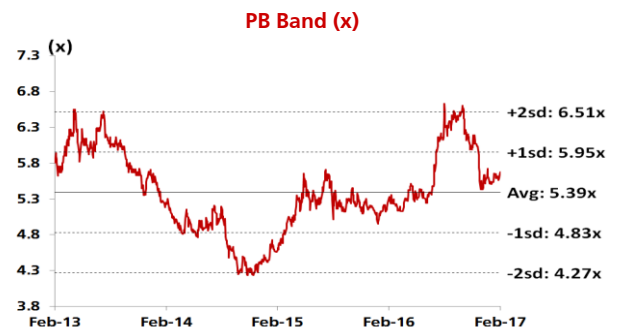
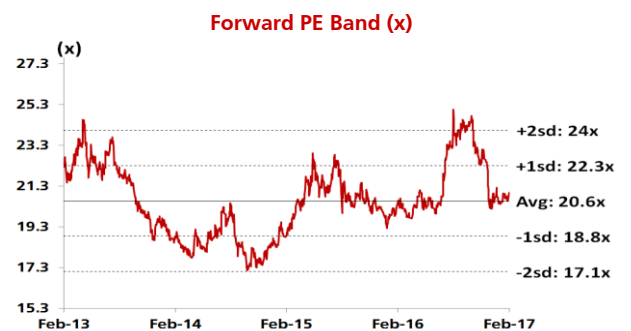
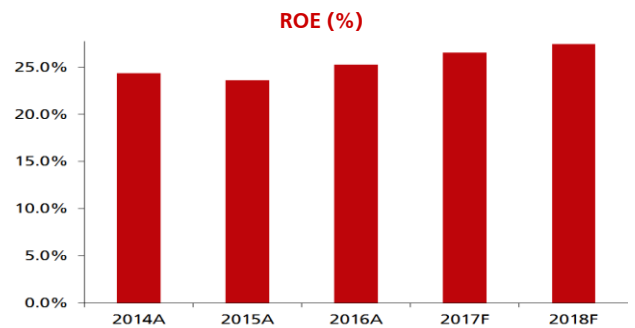
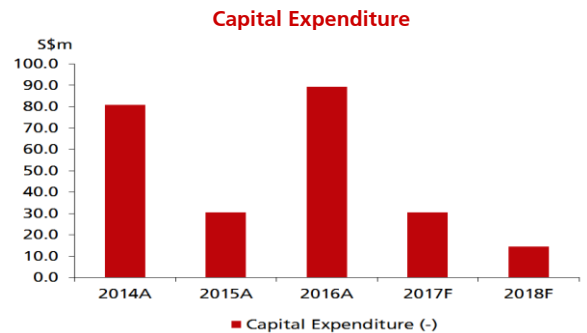
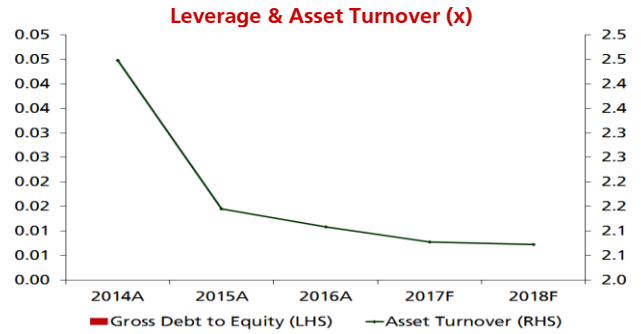
**Key Risks:**

**Revenue growth limited by store openings.** Store expansion in Singapore is largely dependent on the supply of new supermarket retail space released by HDB and its ability to secure the tenders.

**Excessive discounts and promotions may erode margins.** Heavier discounts and promotions vis-a-vis competitors would drive sales revenue, but this could be gained at the expense of margins.

**Company Background**

Sheng Siong is the third largest supermarket operator in Singapore, behind NTUC Fairprice and Dairy Farm International.



Source: Company, DBS Bank



## Key Assumptions

FY Dec	2014A	2015A	2016A	2017F	2018F
Rev per sqft	1,815	1,892	1,848	1,850	1,700
Operation Area (sqft)	404,000	431,000	450,000	433,923	485,664
Number of stores	34.0	39.0	42.0	45.0	48.0

## Segmental Breakdown

FY Dec	2014A	2015A	2016A	2017F	2018F
<b>Revenues (\$\$m)</b>					
Singapore	726	764	797	803	828
<b>Total</b>	<b>726</b>	<b>764</b>	<b>797</b>	<b>803</b>	<b>828</b>
<b>Operating profit (\$\$m)</b>					
Singapore	52.2	57.2	65.1	71.7	76.7
<b>Total</b>	<b>52.2</b>	<b>57.2</b>	<b>65.1</b>	<b>71.7</b>	<b>76.7</b>
<b>Operating profit Margins</b>					
Singapore	7.2	7.5	8.2	8.9	9.3
<b>Total</b>	<b>7.2</b>	<b>7.5</b>	<b>8.2</b>	<b>8.9</b>	<b>9.3</b>

## Income Statement (\$\$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Revenue	726	764	797	803	828
Cost of Goods Sold	(550)	(576)	(592)	(594)	(610)
<b>Gross Profit</b>	<b>176</b>	<b>189</b>	<b>205</b>	<b>209</b>	<b>218</b>
Other Opng (Exp)/Inc	(124)	(132)	(140)	(137)	(141)
<b>Operating Profit</b>	<b>52.2</b>	<b>57.2</b>	<b>65.1</b>	<b>71.7</b>	<b>76.7</b>
Other Non Opg (Exp)/Inc	3.80	9.26	10.5	9.40	9.60
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	1.19	1.22	0.57	0.64	0.67
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>57.1</b>	<b>67.7</b>	<b>76.2</b>	<b>81.7</b>	<b>86.9</b>
Tax	(10.2)	(10.9)	(13.5)	(13.9)	(14.8)
Minority Interest	0.0	0.0	0.0	0.0	(0.1)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>47.0</b>	<b>56.8</b>	<b>62.7</b>	<b>67.8</b>	<b>72.1</b>
Net Profit before Except.	47.0	56.8	62.7	67.8	72.1
EBITDA	63.0	70.6	80.0	86.7	92.2
<b>Growth</b>					
Revenue Gth (%)	5.6	5.3	4.2	0.8	3.1
EBITDA Gth (%)	21.9	12.1	13.3	8.4	6.3
Opg Profit Gth (%)	25.3	9.7	13.7	10.2	6.9
Net Profit Gth (Pre-ex) (%)	20.8	20.8	10.4	8.2	6.2
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	24.2	24.7	25.7	26.0	26.3
Opg Profit Margin (%)	7.2	7.5	8.2	8.9	9.3
Net Profit Margin (%)	6.5	7.4	7.9	8.5	8.7
ROAE (%)	24.3	23.6	25.3	26.6	27.4
ROA (%)	15.8	15.9	16.6	17.6	18.0
ROCE (%)	22.0	19.8	21.3	22.8	23.8
Div Payout Ratio (%)	92.1	92.7	89.9	89.9	89.9
Net Interest Cover (x)	NM	NM	NM	NM	NM

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (\$\$m)**

FY Dec	4Q2015	1Q2016	2Q2016	3Q2016	4Q2016
Revenue	187	209	189	202	197
Cost of Goods Sold	(140)	(158)	(139)	(150)	(145)
<b>Gross Profit</b>	<b>46.7</b>	<b>51.0</b>	<b>49.4</b>	<b>52.5</b>	<b>51.8</b>
Other Oper. (Exp)/Inc	(32.5)	(35.4)	(33.3)	(35.6)	(35.3)
<b>Operating Profit</b>	<b>14.2</b>	<b>15.6</b>	<b>16.0</b>	<b>16.9</b>	<b>16.6</b>
Other Non Opg (Exp)/Inc	1.95	3.82	2.14	2.21	2.37
Associates & JV Inc	0.0	0.0	0.0	0.0	0.0
Net Interest (Exp)/Inc	0.31	0.34	0.20	0.02	0.01
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>16.5</b>	<b>19.8</b>	<b>18.4</b>	<b>19.1</b>	<b>18.9</b>
Tax	(1.9)	(3.4)	(3.2)	(3.4)	(3.5)
Minority Interest	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>14.6</b>	<b>16.4</b>	<b>15.2</b>	<b>15.7</b>	<b>15.4</b>
Net profit bef Except.	14.6	16.4	15.2	15.7	15.4
EBITDA	19.8	23.0	22.1	22.8	22.6

**Growth**

Revenue Gth (%)	(6.4)	11.5	(9.5)	7.2	(2.7)
EBITDA Gth (%)	(5.8)	16.6	(4.0)	3.3	(1.1)
Opg Profit Gth (%)	(4.1)	9.9	2.5	5.2	(1.9)
Net Profit Gth (Pre-ex) (%)	0.9	12.4	(7.6)	3.3	(1.5)

**Margins**

Gross Margins (%)	25.0	24.5	26.1	25.9	26.3
Opg Profit Margins (%)	7.6	7.5	8.5	8.3	8.4
Net Profit Margins (%)	7.8	7.9	8.0	7.7	7.8

**Balance Sheet (\$\$m)**

FY Dec	2014A	2015A	2016A	2017F	2018F
Net Fixed Assets	161	178	252	268	267
Invts in Associates & JVs	0.0	0.0	0.0	0.0	0.0
Other LT Assets	0.0	0.0	0.0	0.0	0.0
Cash & ST Invts	130	126	63.5	66.9	73.5
Inventory	43.1	52.5	61.9	38.6	62.6
Debtors	10.8	11.8	10.4	12.1	11.0
Other Current Assets	0.0	0.0	0.0	0.0	0.0
<b>Total Assets</b>	<b>345</b>	<b>368</b>	<b>388</b>	<b>385</b>	<b>414</b>
ST Debt	0.0	0.0	0.0	0.0	0.0
Creditor	95.9	109	118	107	127
Other Current Liab	10.7	12.7	13.0	13.9	14.8
LT Debt	0.0	0.0	0.0	0.0	0.0
Other LT Liabilities	2.20	2.24	2.45	2.45	2.45
Shareholder's Equity	236	244	252	259	266
Minority Interests	0.0	0.0	2.79	2.79	2.89
<b>Total Cap. &amp; Liab.</b>	<b>345</b>	<b>368</b>	<b>388</b>	<b>385</b>	<b>414</b>
Non-Cash Wkg. Capital	(52.7)	(57.1)	(58.3)	(70.3)	(68.5)
Net Cash/(Debt)	130	126	63.5	66.9	73.5
Debtors Turn (avg days)	5.8	5.4	5.1	5.1	5.1
Creditors Turn (avg days)	62.3	66.4	71.5	70.8	71.9
Inventory Turn (avg days)	30.0	31.0	36.2	31.7	31.1
Asset Turnover (x)	2.4	2.1	2.1	2.1	2.1
Current Ratio (x)	1.7	1.6	1.0	1.0	1.0
Quick Ratio (x)	1.3	1.1	0.6	0.7	0.6
Net Debt/Equity (X)	CASH	CASH	CASH	CASH	CASH
Net Debt/Equity ex MI (X)	CASH	CASH	CASH	CASH	CASH
Capex to Debt (%)	N/A	N/A	N/A	N/A	N/A
Z-Score (X)	10.7	9.7	9.2	9.2	8.9

Source: Company, DBS Bank

## Cash Flow Statement (\$m)

FY Dec	2014A	2015A	2016A	2017F	2018F
Pre-Tax Profit	57.1	67.7	76.2	81.7	86.9
Dep. & Amort.	10.9	13.4	14.9	15.0	15.5
Tax Paid	(7.5)	(10.7)	(12.7)	(13.0)	(13.9)
Assoc. & JV Inc/(loss)	0.0	0.0	0.0	0.0	0.0
Chg in Wkg.Cap.	11.5	2.54	0.77	11.1	(2.6)
Other Operating CF	(0.3)	0.52	(1.2)	0.0	0.0
<b>Net Operating CF</b>	<b>71.7</b>	<b>73.5</b>	<b>78.1</b>	<b>94.9</b>	<b>85.9</b>
Capital Exp.(net)	(80.8)	(30.4)	(89.3)	(30.5)	(14.5)
Other Invts.(net)	0.0	0.0	0.0	0.0	0.0
Invts in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	0.0	0.0	0.0	0.0	0.0
Other Investing CF	0.92	1.22	0.57	0.0	0.0
<b>Net Investing CF</b>	<b>(79.9)</b>	<b>(29.2)</b>	<b>(88.7)</b>	<b>(30.5)</b>	<b>(14.5)</b>
Div Paid	(40.1)	(48.9)	(54.8)	(61.0)	(64.8)
Chg in Gross Debt	0.0	0.0	0.0	0.0	0.0
Capital Issues	79.0	0.0	0.0	0.0	0.0
Other Financing CF	0.0	0.0	2.59	0.0	0.0
<b>Net Financing CF</b>	<b>38.9</b>	<b>(48.9)</b>	<b>(52.2)</b>	<b>(61.0)</b>	<b>(64.8)</b>
Currency Adjustments	0.0	0.04	0.40	0.0	0.0
Chg in Cash	30.8	(4.5)	(62.4)	3.37	6.62
Opg CFPS (S cts)	4.00	4.72	5.14	5.57	5.89
Free CFPS (S cts)	(0.6)	2.86	(0.7)	4.28	4.75

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	24 Feb 16	0.87	1.01	BUY
2:	28 Apr 16	0.89	1.04	BUY
3:	25 May 16	0.87	1.04	BUY
4:	31 May 16	0.88	1.04	BUY
5:	13 Jul 16	0.90	1.04	BUY
6:	27 Jul 16	0.99	1.09	BUY
7:	29 Aug 16	1.05	1.09	BUY
8:	26 Sep 16	1.08	1.09	BUY
9:	29 Sep 16	1.07	1.18	BUY
10:	04 Oct 16	1.08	1.18	BUY
11:	27 Oct 16	1.07	1.19	BUY

Source: DBS Bank

Analyst: Alfie YEO

Andy SIM CFA

# Singapore Company Guide

# Thai Beverage Public Company

Version 5 | Bloomberg: THBEV SP | Reuters: TBEV.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

23 Nov 2016

## BUY

Last Traded Price ( 22 Nov 2016): S\$0.87 (STI : 2,822.20)

Price Target 12-mth: S\$1.09 (26% upside)

**Potential Catalyst:** Acquisitions, restructuring

**Where we differ:** Below, probably due to adjustment of FYE to Sep

**Analyst**

Andy SIM CFA +65 6682 3718 andysim@dbs.com

### What's New

- Reiterate positive view of transformation into a regional beverage player
- Restructuring unlikely to take "asset swap" route
- Accretive acquisition a key catalyst, along with restructuring; group has ample firepower
- Mourning period impact likely to be limited

### Price Relative



\*Note: Financial year end changed to Sep, from FY16. FY16 period is based on 9 months, from 1 Jan 2016 to 30 Sep 2016.

### Forecasts and Valuation

FY Dec/ Sep (Bt m)	2015A	*2016A	*2017F	*2018F
Revenue	172,049	139,153	202,542	212,442
EBITDA	36,496	27,801	40,475	43,849
Pre-tax Profit	30,972	22,679	34,949	38,227
Net Profit	26,463	18,920	28,344	30,982
Net Pft (Pre Ex.)	26,463	18,920	28,344	30,982
Net Pft Gth (Pre-ex) (%)	22.0	(28.5)	49.8	9.3
EPS (S cts)	4.23	3.03	4.53	4.96
EPS Pre Ex. (S cts)	4.23	3.03	4.53	4.96
EPS Gth Pre Ex (%)	22	(29)	50	9
Diluted EPS (S cts)	4.23	3.03	4.53	4.96
Net DPS (S cts)	2.45	2.41	2.73	2.89
BV Per Share (S cts)	18.5	19.2	21.0	23.1
PE (X)	20.5	28.6	19.1	17.5
PE Pre Ex. (X)	20.5	28.6	19.1	17.5
P/Cash Flow (X)	24.1	29.3	18.6	17.5
EV/EBITDA (X)	16.0	21.0	14.2	12.9
Net Div Yield (%)	2.8	2.8	3.2	3.3
P/Book Value (X)	4.7	4.5	4.1	3.8
Net Debt/Equity (X)	0.3	0.3	0.2	0.1
ROAE (%)	24.4	16.0	22.5	22.5

**Earnings Rev (%):** 0 0  
**Consensus EPS (S cts):** 4.36 4.73  
**Other Broker Recs:** B: 8 S: 1 H: 1

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P

## Identifying scenarios to unlock value

**Long-term BUY, TP: S\$1.09.** We see ThaiBev being in a transformational mode to morph into a regional player. While investors may be deterred with uncertainty surrounding the extent and impact from mourning period in Thailand, we believe its resilience and its ongoing transformation into a regional beverage player will aid in further re-rating of the counter. We would advocate accumulating on pullbacks.

**Acquisition, restructuring and earnings accretion to be a re-rating catalyst.** We see FNN as the vehicle for ThaiBev's regional acquisition strategy. We estimate that ThaiBev/ FNN collectively have sufficient firepower to undertake acquisitions to the value of around S\$4bn. On the back of this, we expect FNN to undertake equity fund raising, thereby allowing ThaiBev to raise its stake in FNN. In a scenario (pg 4), assuming a S\$3bn acquisition by FNN, we estimate an EPS accretion of 16-35% and 8-10% for FNN and ThaiBev respectively (through a mix of cash, debt and rights issue at a multiple of 20-25x). The increasing talks of potential stakes in Vinamilk and Saigon Beer Company in Vietnam sets the stage for this, and the group will be key contenders, in our view.

**Spirits, Beer growth and NAB turnaround a key driver of stock price.** In our deep dive analysis, we found that EPS growth is a key trait for stock price re-rating. Its current Spirits operations and dominant position in Thailand should provide a stable earnings base, while a further gain in market share for beer and turnaround in Non-Alcoholic Beverage will further boost growth. With the passing of Thailand's beloved King Bhumibol and the mourning period, we believe the impact on ThaiBev could be temporary. Through the interactive Trefis model, we showcase our estimates allowing for variations to our assumptions (link: [Trefis model](#)).

### Valuation:

Our TP of S\$1.09 is based on sum-of-parts valuation, derived via discounted cashflows of its core operations, and imputing fair values for its stakes in F&N and FCL.

### Key Risks to Our View:

**Further excise tax hikes.** Further increase in excise duties without a commensurate increase in ASP.

### At A Glance

Issued Capital (m shrs)	25,110
Mkt. Cap (S\$m/US\$m)	21,720 / 15,267
Major Shareholders (%)	
Siriwana Company Limited	45.3
MM Group Limited	20.6
Capital Group Companies Inc	5.3
Free Float (%)	28.8
3m Avg. Daily Val (US\$m)	12.9

ICB Industry : Consumer Goods / Beverages

**WHAT'S NEW****Identifying scenarios to unlock value**

**Reiterate BUY; seeking LT growth through regional transformation.** We reiterate our long-term BUY on ThaiBev as we believe the group will be able to deliver growth through its vision to be a regional beverage player. In our **in-depth analysis** on the **drivers of the share price**, we noted that ThaiBev's positive trait is the defensive and resilient operations, providing outperformance in a declining market. However, the key to share price re-rating is earnings per share (EPS)/net profit growth as evidenced by its performance in the past couple of years, since 2012.

**Stable, defensive growth, cash generative.** We like ThaiBev for its resilient and dominant Spirits operations, providing majority cashflow for the group. In addition, the Beer operations should continue to retain its market share gains post the rebranding of Chang Beer. With the rebranding and increase in brand awareness, this puts management in a better position to manage its margins.

A key catalyst for ThaiBev is its regional expansion vision and strategy, to which we believe the market is not providing sufficient credit. Since the dividend-in-specie of FCL by FNN, the market has been expecting the restructuring of ThaiBev's shareholdings in these two entities by way of an "**asset swap**" with TCC Assets (controlled by ThaiBev's Chairman). However, the purported "swap" exercise imagined by the market is likely to result in earnings dilution for ThaiBev.

**FNN to be the investment vehicle.** We believe ThaiBev will be using FNN as the regional expansion vehicle (for businesses not relating to spirits). Through the undertaking of an acquisition by FNN, we expect to see ThaiBev/TCC Assets leverage on the opportunity to restructure its holdings, with the eventual outcome of ThaiBev emerging as the majority shareholder.

**Sufficient firepower for acquisitions.** Between ThaiBev and FNN, we estimate it has sufficient firepower to undertake acquisitions of up to around S\$4bn, and possibly higher, in value. Based on an **assumed scenario of S\$3bn**, we estimate that the eventual **EPS accretion** would be 16-35%, and 8-10% respectively, for FNN and ThaiBev (assuming acquisition PE of 20-25x, with mix of cash, debt and equity). Our assumptions and scenario are shown in later sections.

**Vinamilk and Sabeco acquisitions sought after.** With the privatisation drive, the Vietnamese government is looking to sell stakes in several companies such as Vinamilk, Saigon Beer Company (Sabeco) and Hanoi Beer Company (Habeco). We believe this should provide opportunities for ThaiBev/FNN to act as a consortium to bid for these assets. If successful, we believe this should mark another **milestone for ThaiBev** to further **diversify** its revenue and earnings **outside of Thailand**, since its acquisition of FNN back in 2012

**Reiterate BUY, TP: S\$1.09.** We reiterate our BUY on ThaiBev as we believe in its long-term potential. We expect its core operations to remain resilient, and the recent pullback on concerns of consumption being affected by the mourning period could be temporary, in our view. Based on our sensitivity analysis, we believe the impact is limited ([Thai Beverage Public Company: Sensitivity analysis, dated 17 Oct 2016](#)). One could vary the sales volume and margin assumptions to test the impact on EPS through the interactive Trefis model through this [link](#).

**FY16 results review**

In the recently announced FY16 results, Thai Beverage Public Company (ThaiBev) reported a 29% y-o-y drop in headline net profit to THB18.9bn on revenue of THB139.2bn (-19%) compared to THB172bn (FY15). The decline was mainly due to the change in its financial year end to September from December and, hence FY16 figures are based on nine months instead of 12 months.

Comparing results based on a like-for-like 9-month period, ThaiBev would have reported a 15% y-o-y revenue growth, and a 7% drop in net profit compared to 9M15. The drop was mainly due to an absence of one-off disposal gain recognised by its associate, F&N, arising from the disposal of Myanmar Brewery Limited (gain of THB3.8bn). Excluding the gain, we estimate net profit would have increased by 13.9% instead.

Our recent results note dated 21 November 2016, can be accessed via the link [Thai Beverage Public Company: Impacted by higher opex](#).

**Scenarios to unlock value: How we expect ThaiBev to grow regionally and restructure its holdings in FNN**

In the following section, we discuss the key catalyst for ThaiBev and how we expect its acquisition strategy will tie in with the restructuring of its shareholding in FNN, while at the same time be accretive to earnings.

**Restructuring play comes along with M&A.** We expect to see ThaiBev leveraging on its Singapore-listed associate company, Fraser and Neave Ltd (FNN) to seek inorganic growth for the Group. Along with this, we believe ThaiBev will take the opportunity to restructure, increase and consolidate its holdings in FNN. This could surprise the market as the general market expectation was for divestment of its stake in FCL and increase in its stake in FNN, which is deemed to be earnings dilutive.

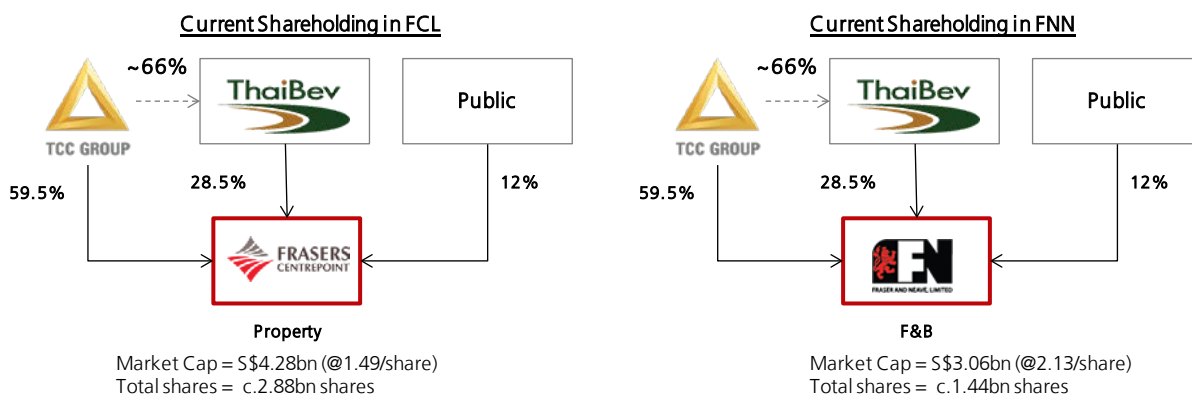
**Key question:**

**Question:** *The market expectations of an asset swap, would result in earnings dilutive impact, and thus, not beneficial for ThaiBev?*

**Answer:** We had originally thought that post the dividend-in-specie of Frasers Centrepoint Limited (FCL), an “asset swap” would be the next step. We think this is not the case now, and we explain our reasoning as follows:

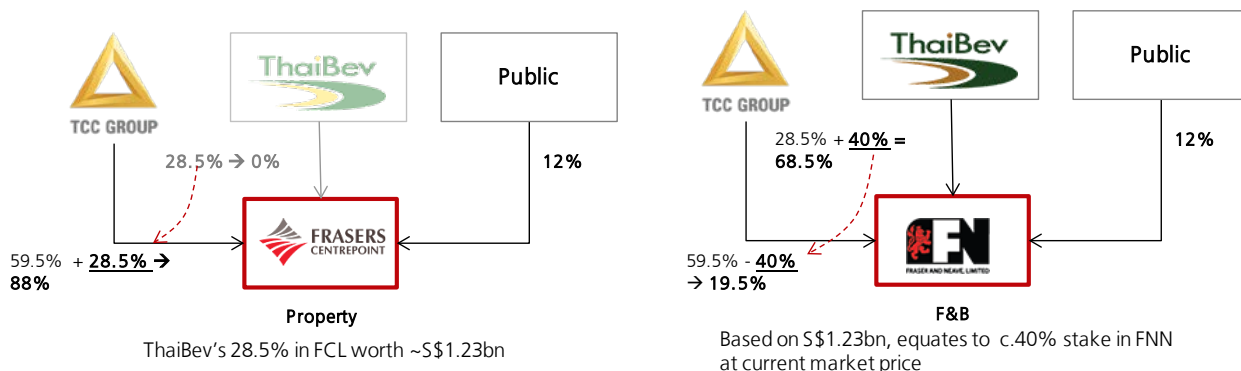
**“Asset swap” theory explained.** Post the FCL dividend-in-specie, ThaiBev and TCC Assets each holds approximately 28.5% and 59.5% stakes, separately in each of FNN and FCL. The general idea was that ThaiBev would “swap” its stake in FCL to TCC Assets, and in return, gain a higher stake in FNN. This would streamline operations and result in ThaiBev being the main and largest shareholder of FNN (an F&B company), while divesting its stake in FCL which is a property company, and deemed as non-core for ThaiBev.

**Current shareholdings in FCL and FNN**



Source: Company, DBS Bank

**Purported “asset swap” of shareholding in FCL and FNN**



Source: Company, DBS Bank

## Thai Beverage Public Company

### FNN forecasts and valuation

FNN			
Share price (\$)	2.13		
Share outstanding (m shares)	1,446		
Market cap (\$ m)	3,080		
		FY17	FY18
Net profit (\$m)		96	101
BV (\$/share)		1.62	1.65
P/B (x)		1.31	1.29
P/E (x)		32.0	30.5

Source: Bloomberg Finance L.P. (as of 1 Nov 2016),  
DBS Bank estimates

**We do not think the “swap” will happen now.** We believe the focus has been incorrect on thinking that a “swap” could happen. Our argument is as follows:

- Earnings dilutive for ThaiBev.** An outright “swap” of shareholdings in FNN and FCL (assuming at current market price) is likely to result in earnings dilution for ThaiBev, and thus may not make sense financially. Given current valuation, we estimate that ThaiBev could see about 6% dilution to its net profit. FNN is trading at 32x and 1.3x PE and P/BV (FY17F) while FCL’s valuation is at 11x and 0.6x PE and P/BV respectively.
- An interested party transaction.** Given that TCC Assets still holds the majority of FNN’s shares, and to effect the “swap” this would be considered an interested party transaction (IPT). We believe this puts the vote onto minority shareholders of ThaiBev, which, in our view, has a certain risk level of not being able to obtain approval from shareholders.
- Operationally, ThaiBev and FNN are already collaborating.** Since the acquisition of FNN, the two entities have collaborated on operational matters and streamlined its strategies. For instance, FNN has launched Oishi ready-to-drink (RTD) range of teas in Malaysia and Singapore, while ThaiBev launched 100Plus in Thailand. Furthermore, the alignment of ThaiBev’s products together with the secondment of senior management from both entities to head each unit is also a testament to the operational relationship.

Hence, we believe the market should not be worried arising from such an exercise that could potentially be dilutive for ThaiBev.

### FCL forecasts and valuation

FCL			
Share price (\$)	1.49		
Share outstanding (m shares)	2,900		
Market cap (\$ m)	4,321		
		FY17	FY18
Net profit (\$m)		392	434
BV (\$/share)		2.39	2.45
P/B (x)		0.62	0.61
P/E (x)		11.0	10.0

Source: Bloomberg Finance L.P. (as of 1 Nov 2016),  
DBS Bank estimates

**Question: Would a restructuring still take place, and why is it taking so long?** We believe a restructuring of its shareholding is contingent on any potential acquisition. In our view, ThaiBev should be relying on FNN for its regional ambition to expand outside of Thailand. This would aid in delivering growth for the group, and at the same time, enable an option for increasing its stake in FNN.

**Answer: Awaiting acquisition by FNN.** We believe FNN is likely to be used as the investment vehicle for the group’s regional expansion plans. We expect to see FNN undertake significant earnings-accretive acquisitions to pursue growth, and to “claw” back earnings loss from the divestment of its stake in Myanmar Brewery Limited. Based on our estimates, we believe FNN has the capacity to deliver acquisitions of up to about S\$4bn, via a mix of cash, debt and equity.

**Opportunity to restructure on back of acquisitions.** Our view is that restructuring and the potential increase of ThaiBev’s shareholding in FNN will be done via equity fund raising on the back of any mega-acquisitions undertaken.

#### Scenario assuming S\$3bn acquisition at 20-25x PE.

Assuming FNN undertakes an acquisition amounting to S\$3bn, the acquisition will be funded via a mixture of debt, internal cash and equity raising given the transaction size relative to itself. FNN’s current market capitalisation is only about S\$3bn, with a total equity value of S\$2.6bn. Based on our scenario assumptions, the **profit accretion to ThaiBev could range from 8-10%** on our FY17F estimates. We made the following assumptions in our scenario:

- Transaction value of S\$3bn**, assuming an acquisition PE multiple of 20-25x
- Funding** – mix of cash, debt and equity. The funding is assumed to be via mix of FNN’s internal cash, debt and equity fund raising, as follows:

**Assumed acquisition value and funding mix**

		Comments	
Transaction value (\$m)	3,000	Assumed acquisition	
<i>via:</i>		% of total	
Cash	600	20%	Internal resources
Debt	1,100	37%	Assume 3% interest
Equity	1,300	43%	Rights issue
	<b>3,000</b>	<b>100%</b>	

Source: DBS Bank estimates

- c) **Rights issue, with ThaiBev underwriting the offering.**  
 Equity fund raising via rights issue, assuming 3-for-5 rights at c.30% discount to assumed \$2.10 price and c.20% discount to Theoretical Ex-Rights Price (TERP). We also assume that TCC Assets will waive its rights entitlement, while ThaiBev will underwrite the issue, up to 90% of total outstanding share post-rights issue. This is to maintain the minimum float requirements.

**Scenario analysis on assumed rights issue by FNN**

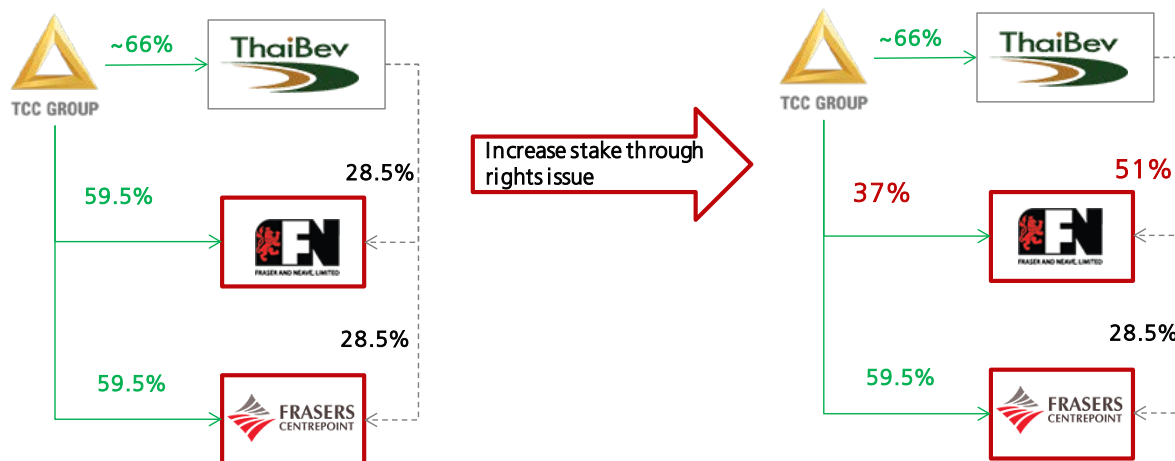
Share price (\$)	2.10	Assumed FNN share price
Est. TERP (\$)	1.88	Estimated if rights price at \$1.50

Discount to share price	Rights share price (\$/share)	# of rt shares (m)	New share base (m)
5%	2.00	650	2,097
10%	1.90	684	2,131
14%	1.80	722	2,169
19%	1.70	765	2,212
24%	1.60	813	2,260
29%	1.50	867	2,314
33%	1.40	929	2,376

Source: DBS Bank estimates

- d) ThaiBev to leverage on its balance sheet and undertake loans to fund FNN's rights issue. Since its acquisition of its FNN stake in 2012 and bringing its gearing to 1.2x then, ThaiBev has successfully deleverage and its net gearing stands at 0.3x only.

**Changes in TCC and ThaiBev shareholding post our scenario of rights issue by FNN**



Note: Assuming TCC abstains from subscribing to its rights issue, while ThaiBev underwrites up to 51% shareholding of the enlarged shares outstanding. Given that TCC and ThaiBev are related parties, a General Offer will not be triggered.

Source: DBS Bank



## DBS estimated FY17F net profit and proforma profits with assumed acquisition and related fund raising

	Current estimates FY17F	Proforma Based on 20x PE FY17F	Proforma Based on 25x PE FY17F	Comments
<b>FNN (\$m)</b>				
PAT	96	246	216	Post acquisition
Less: additional interest		(38)	(38)	Assume 3% interest and lower interest income (factoring in tax)
		208	178	
Current shares (m)	1,447	1,447	1,447	
Rights shares (m)	-	867	867	Assume 5-for-3 rights, at 30% discount to S\$2.10, equating to TERP of S\$1.88/share
New share base (m)	-	2,314	2,314	
EPS (Scts)	6.6	9.0	7.7	Proforma based on expanded share base
<b>FNN EPS accretion (%)</b>	<b>-</b>	<b>35%</b>	<b>16%</b>	Accretion to FNN's EPS of 16-35%
Profit accretion for ThaiBev (\$m)		125	98	Assume incremental profit for ThaiBev with acquisition and stake increase to 88% in FNN (from 28.5%) and additional interest costs to fund rights issue of FNN
<i>in THB (m)</i>		3,115	2,455	THB (based on fx at THB25/SGD)
ThaiBev net profit estimates (THB m)		30,830	30,830	DBS estimate of ThaiBev's FY17F profit
<b>Accretion to ThaiBev</b>		<b>10%</b>	<b>8%</b>	Estimated accretion to ThaiBev

Source: DBS Bank' estimates

**Earnings uplift for ThaiBev.** In our scenario, we estimate that there will be a net profit accretion to ThaiBev ranging from 8-10% for ThaiBev, while for FNN, the EPS accretion would be between 16-35%, assuming an acquisition PE of 20-25x.

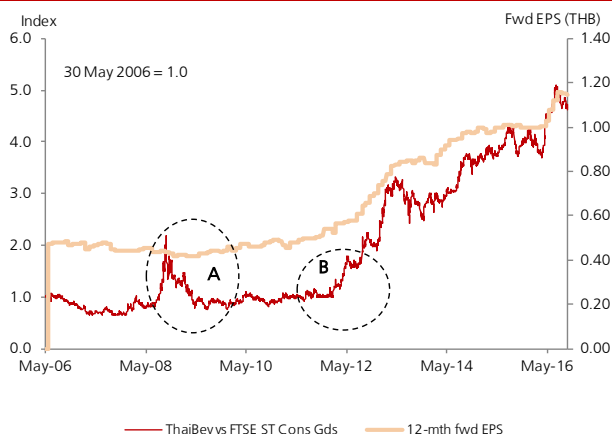
**Appendix 1:**

**A look at ThaiBev's listed history – what drives its share price?** We looked at ThaiBev's share price performance since its listing in 2006 and compared it against several factors. We arrived at the following conclusions:

1. ThaiBev is well regarded as a staple and defensive counter, outperforming in a weak market and underperforming in an economic recovery
2. EPS growth is well sought after, and corresponds with share price re-rating.

**Observation 1: ThaiBev is regarded as a resilient and defensive counter**

**ThaiBev vs FTSE Consumer Goods Index**



Source: Thomson Reuters, DBS Bank

Being listed on the Singapore Exchange, but with operations primarily from Thailand, we explored the counter's relative performance against FTSE ST Consumer Goods Index (FTSECG) in Singapore and SET Food and Beverages Index (SETF&B) since 30 May 2006.

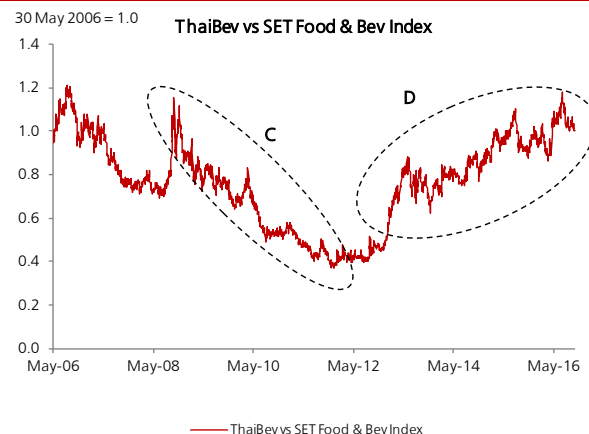
**Performance against FTSE ST Consumer Goods Index.**

Comparing against FTSE ST Consumer Goods Index, we noticed two primary observations marked by A and B in the chart above. Referencing to point A, we noticed that ThaiBev had significantly outperformed the index up to end-2008 as the Global Financial Crisis unfolded, even though forward EPS showed no upward revision or growth. Subsequently, it gradually lost its outperformance from end-2008 to mid-2009. Thereafter, in early 2012, its share price began to outperform the FTSECG along with EPS growth.

**Performance against SET Food & Beverages Index.** Looking at ThaiBev's share price performance against SETF&B Index, ThaiBev outperformed within a short span of time as the GFC unfolded in late 2008. Thereafter, it steadily lost its lustre and trailed the SETF&B Index over the next four years till mid-2012. We believe this could have arisen due to its steady, but low growth, profits. Interestingly, the counter has staged a comeback since mid-2012 and has regained its performance against the SETF&B Index.

**Share price movements reflect EPS projections.** We also plotted ThaiBev's share price against its 12-month forward EPS and correlation between both. We note that share price

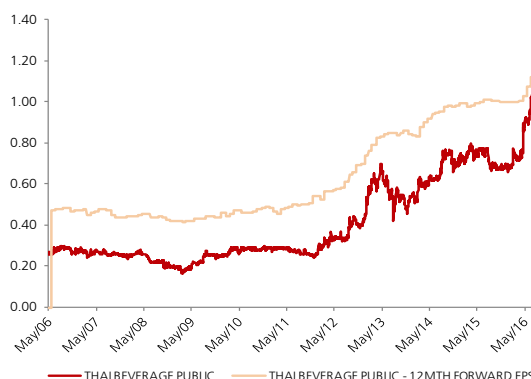
**ThaiBev vs SET Food & Beverages Index**



Source: Thomson Reuters, DBS Bank

trends followed EPS closely. The correlation of 0.98 also confirms our beliefs. In our opinion, this suggests that the re-rating of ThaiBev's share price is highly dependent on the growth of its bottom line.

**ThaiBev's share price vs 12-month forward EPS**



Source: Thomson Reuters, DBS Bank

**Conclusion: Outperformance in a weak market, but EPS growth the key to share price re-rating.** Based on our observations, ThaiBev's stable and defensive traits are preferred, but only in a weak market, given its resilient operations. However, the market seems to want more. For continued re-rating and performance, EPS growth is sought after.

**CRITICAL DATA POINTS TO WATCH**

**Critical Factors:**

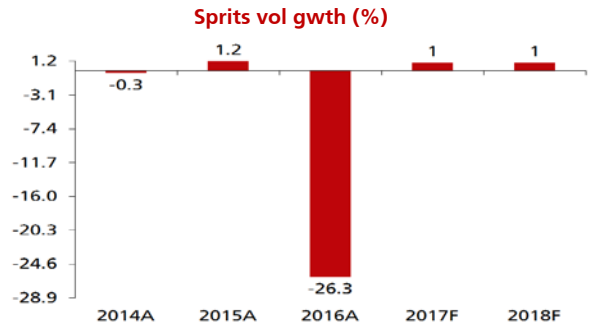
**Spirits as the main earnings driver.** ThaiBev derives earnings mainly from four key divisions – Spirits, Beer, Non-alcoholic beverages and Food. The Spirits division is the largest revenue contributor, accounting for 55% (as of FY16) of the group’s revenue. Earnings from Spirits division are particularly sensitive to excise tax – this accounts for 52.7% of Spirits’ revenue. Consumption of spirits has held up despite the weak consumer sentiment in Thailand, due to the wide range of brands that cater to the wide spectrum of consumers – from low to high income.

**Building upon Chang’s popularity.** Revenues from Beer division contributed 32% of the group’s revenue in FY16. Excise tax is also the largest cost component, accounting for 58.9% of the group’s revenue. Input cost accounts for 15.9% of Beer revenue and is affected by the prices of raw materials such as barley, rice, tin and glass bottles. Chang Beer was re-launched in August 2015 with the streamlining of its sub-brands into just Chang Classic and repackaged into emerald green bottles, from amber. The re-launch has been well-received and its beer market share has jumped to c.40%, up from 30%. This has led to the re-rating of the counter in 2016.

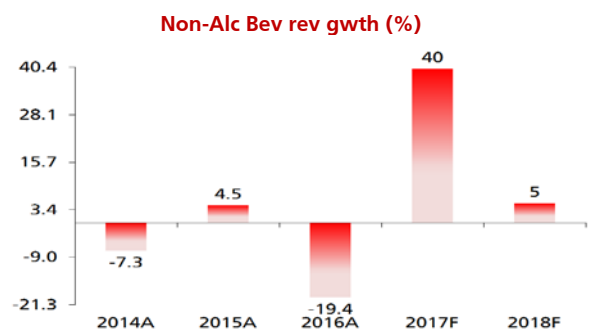
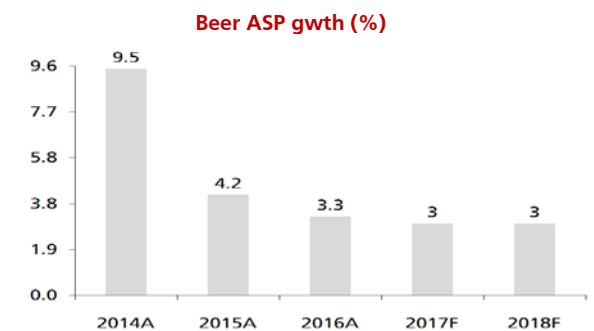
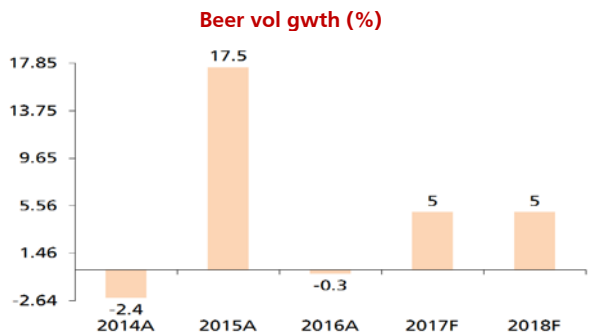
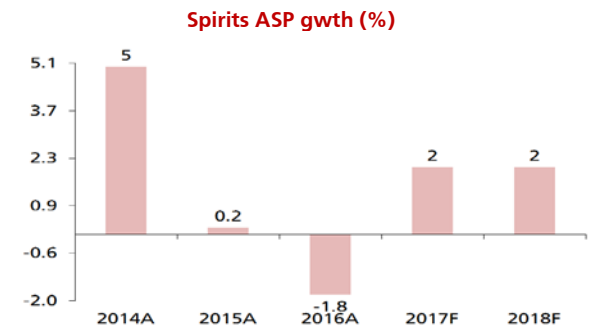
**Alcohol sale restrictions.** Alcohol sales have been subjected to restrictions in Thailand. Most recently, laws regarding banning the sale of alcoholic products in proximity to education institutions have been discussed in Thailand. Given that the alcoholic businesses – Spirits and Beer - contribute c.87% of the group’s revenue, any decline in sales revenue by the alcoholic divisions will be significantly felt by the group.

**Turnaround in its Non-Alcoholic Beverage.** Revenues from non-alcoholic beverages made up almost 9% of group revenue in FY16. The business unit is incurring operating losses due to its high SG&A expenses as it is focused on building brand awareness and gaining market share. With the launch of 100Plus in Thailand through a collaboration with F&N, it could take time for the brand to be built up. We project NAB's business segment to remain in the red till FY18F, but progressively with smaller losses.

**Driving growth through associates’ acquisition.** We believe the group is poised to leverage on its associate, FNN, to deliver on acquisition to expand regionally. On the back of that, and with an equity fund raising, it will provide ThaiBev an opportunity to consolidate its shareholding. Assuming a reasonable acquisition valuation (of 20-25x), this should be earnings accretive for both FNN and ThaiBev, and drive re-rating for the counter.



\*FY16 drop in volume due to 9-month period, vs 12-month for FY15. Like-for-like comparison shows a 2.3% increase.



Source: Company, DBS Bank

**Balance Sheet:**

**Gearing has improved since acquisition of F&N's stake.** The group's net gearing has improved significantly, and is projected to further reduce to 0.22 (by end-FY17F) from the high of 1.2x immediately following its 28.5% stake acquisition in F&N. Going forward, its healthy balance sheet will put it in a good position for inorganic growth opportunities within the region.

**Share Price Drivers:**

**Changes in excise taxes.** More than 50% of the group's revenue goes into excise duties. A change in excise tax would impact on the share price, and depending on whether the group is able to pass on the increase costs to consumers, share price could be positively or negatively affected.

**Corporate restructuring.** There has been constant talk of the eventual consolidation of F&N as a subsidiary, coupled with a monetisation of its stake in Frasers Centrepoint Limited. In our view, these tie in with the group's announced "Vision 2020" Strategic Roadmap, in which one of the targets is to increase NAB's revenue contribution to over 50%.

**Turnaround in NAB.** We project NAB to continue in the current investment mode in the foreseeable future. However, in the event that NAB turns around faster than expected, it could provide a catalyst to share price, underlining management's ability to create value for the group.

**Key Risks:**

**Prolonged slump in consumer sentiment.** A prolonged slump in the Thai economy could impact consumption, and hence our forecasts. Vice-versa, a pickup in economic activity could offer upside potential.

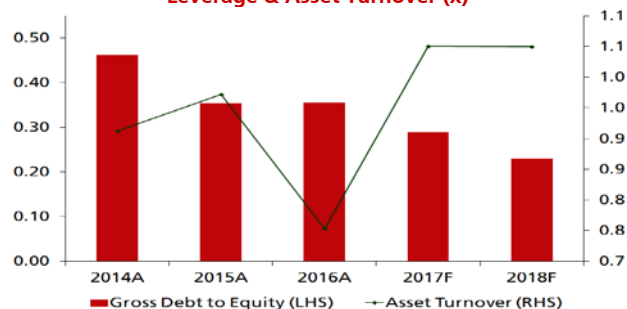
**Political situation in Thailand.** A change or deterioration of the uncertain political situation in Thailand could have an adverse impact on the broader economy and private consumption.

**Further excise tax hikes.** Further increases in excise duties without a commensurate increase in ASP.

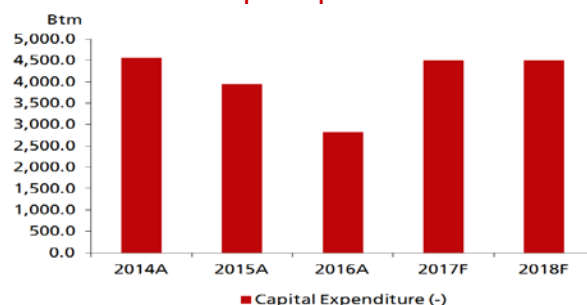
**Company Background**

ThaiBev is a leading beverage producer in Thailand, with business segments spanning across spirits, beer, non-alcoholic beverages and food. Its key brands are Sangsom, Hong Thong and Chang. It has 28.5% associate stakes in both Singapore-listed F&N and Frasers Centrepoint Limited.

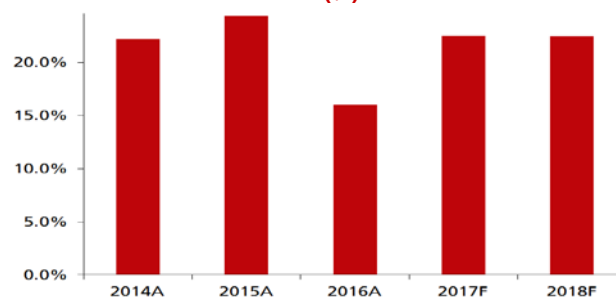
**Leverage & Asset Turnover (x)**



**Capital Expenditure**



**ROE (%)**



**Forward PE Band (x)**



**PB Band (x)**



Source: Company, DBS Bank

## Thai Beverage Public Company

### Key Assumptions

FY Dec / Sep *	2014A	2015A	*2016A	*2017F	*2018F
Spirits vol gwth (%)	(0.3)	1.20	(26.3)	1.00	1.00
Spirits ASP gwth (%)	5.00	0.20	(1.8)	2.00	2.00
Beer vol gwth (%)	(2.4)	17.5	(0.3)	5.00	5.00
Beer ASP gwth (%)	9.50	4.20	3.30	3.00	3.00
Non-Alc Bev rev gwth (%)	(7.3)	4.50	(19.4)	40.0	5.00

### Segmental Breakdown

FY Dec / Sep *	2014A	2015A	*2016A	*2017F	*2018F
<b>Revenues (Btm)</b>					
Spirits	104,592	105,991	76,649	110,647	113,988
Beer	35,193	43,112	44,397	66,688	72,123
Non-Alcoholic Bev.	15,775	16,488	13,290	18,606	19,536
Food	6,602	6,578	4,993	6,857	7,063
Others	(122)	(120)	(176)	(256)	(269)
<b>Total</b>	<b>162,040</b>	<b>172,049</b>	<b>139,153</b>	<b>202,542</b>	<b>212,442</b>
<b>Operating profit (Btm)</b>					
Spirits	25,278	25,191	18,081	26,334	27,129
Beer	334	1,290	3,060	6,669	7,934
Non-Alcoholic Bev.	(2,336)	(3,461)	(1,811)	(1,302)	(391)
Food	36.0	52.0	37.0	103	106
Others	68.0	120	16.0	16.0	16.0
<b>Total</b>	<b>23,380</b>	<b>23,192</b>	<b>19,383</b>	<b>31,819</b>	<b>34,794</b>
<b>Operating profit Margins</b>					
Spirits	24.2	23.8	23.6	23.8	23.8
Beer	0.9	3.0	6.9	10.0	11.0
Non-Alcoholic Bev.	(14.8)	(21.0)	(13.6)	(7.0)	(2.0)
Food	0.5	0.8	0.7	1.5	1.5
Others	(55.7)	(100.0)	(9.1)	(6.2)	(6.0)
<b>Total</b>	<b>14.4</b>	<b>13.5</b>	<b>13.9</b>	<b>15.7</b>	<b>16.4</b>

### Income Statement (Btm)

FY Dec / Sep *	2014A	2015A	*2016A	*2017F	*2018F
Revenue	162,040	172,049	139,153	202,542	212,442
Cost of Goods Sold	(114,710)	(121,830)	(97,591)	(139,126)	(144,507)
<b>Gross Profit</b>	<b>47,330</b>	<b>50,219</b>	<b>41,562</b>	<b>63,416</b>	<b>67,935</b>
Other Opng (Exp)/Inc	(23,886)	(26,839)	(22,130)	(31,597)	(33,141)
<b>Operating Profit</b>	<b>23,443</b>	<b>23,380</b>	<b>19,433</b>	<b>31,819</b>	<b>34,794</b>
Other Non Opg (Exp)/Inc	600	1,162	648	648	648
Associates & JV Inc	3,389	7,774	3,375	3,496	3,729
Net Interest (Exp)/Inc	(1,447)	(1,344)	(776)	(1,013)	(944)
Exceptional Gain/(Loss)	0.0	0.0	0.0	0.0	0.0
<b>Pre-tax Profit</b>	<b>25,984</b>	<b>30,972</b>	<b>22,679</b>	<b>34,949</b>	<b>38,227</b>
Tax	(4,552)	(4,508)	(3,643)	(6,605)	(7,245)
Minority Interest	261	(0.3)	(117)	0.0	0.0
Preference Dividend	0.0	0.0	0.0	0.0	0.0
<b>Net Profit</b>	<b>21,694</b>	<b>26,463</b>	<b>18,920</b>	<b>28,344</b>	<b>30,982</b>
Net Profit before Except.	21,694	26,463	18,920	28,344	30,982
EBITDA	31,427	36,496	27,801	40,475	43,849
<b>Growth</b>					
Revenue Gth (%)	4.0	6.2	(19.1)	45.6	4.9
EBITDA Gth (%)	23.3	16.1	(23.8)	45.6	8.3
Opg Profit Gth (%)	10.3	(0.3)	(16.9)	63.7	9.3
Net Profit Gth (Pre-ex) (%)	13.4	22.0	(28.5)	49.8	9.3
<b>Margins &amp; Ratio</b>					
Gross Margins (%)	29.2	29.2	29.9	31.3	32.0
Opg Profit Margin (%)	14.5	13.6	14.0	15.7	16.4
Net Profit Margin (%)	13.4	15.4	13.6	14.0	14.6
ROAE (%)	22.2	24.4	16.0	22.5	22.5
ROA (%)	12.2	15.0	10.2	14.7	15.3
ROCE (%)	11.8	12.3	9.6	14.6	15.3
Div Payout Ratio (%)	70.6	57.9	79.6	60.2	58.4
Net Interest Cover (x)	16.2	17.4	25.1	31.4	36.9

Includes one-off gains from associate FNN from the divestment of stake in Myanmar Brewery Limited (THB3.8bn).

Based on a 9-month period. Like-for-like comparison would have shown a 14% increase in net profit, before disposal gain.

Source: Company, DBS Bank

**Quarterly / Interim Income Statement (Btm)**

FY Dec	3Q2015	4Q2015	1Q2016	2Q2016	3Q2016
Revenue	36,472	50,880	55,175	45,450	38,528
Cost of Goods Sold	(25,851)	(36,780)	(38,956)	(31,761)	(26,874)
<b>Gross Profit</b>	<b>10,621</b>	<b>14,100</b>	<b>16,219</b>	<b>13,689</b>	<b>11,654</b>
Other Oper. (Exp)/Inc	(6,241)	(7,584)	(6,863)	(7,328)	(7,939)
<b>Operating Profit</b>	<b>4,380</b>	<b>6,516</b>	<b>9,356</b>	<b>6,361</b>	<b>3,715</b>
Other Non Opg (Exp)/Inc	169	271	143	201	303
Associates & JV Inc	4,565	728	1,115	692	1,568
Net Interest (Exp)/Inc	(325)	(328)	(275)	(229)	(271)
Exceptional Gain/(Loss)	0.0	0.0	0.0	31.4	(31.4)
<b>Pre-tax Profit</b>	<b>8,789</b>	<b>7,188</b>	<b>10,340</b>	<b>7,056</b>	<b>5,283</b>
Tax	(802)	(1,192)	(1,745)	(1,169)	(729)
Minority Interest	8.99	34.0	(34.6)	(81.8)	(0.3)
<b>Net Profit</b>	<b>7,996</b>	<b>6,030</b>	<b>8,560</b>	<b>5,806</b>	<b>4,554</b>
Net profit bef Except.	7,996	6,030	8,560	5,774	4,585
EBITDA	9,114	7,516	10,615	7,254	5,586

**Growth**

Revenue Gth (%)	(6.5)	39.5	8.4	(17.6)	(15.2)
EBITDA Gth (%)	25.3	(17.5)	41.2	(31.7)	(23.0)
Opg Profit Gth (%)	(13.7)	48.8	43.6	(32.0)	(41.6)
Net Profit Gth (Pre-ex) (%)	36.4	(24.6)	42.0	(32.5)	(20.6)

**Margins**

Gross Margins (%)	29.1	27.7	29.4	30.1	30.2
Opg Profit Margins (%)	12.0	12.8	17.0	14.0	9.6
Net Profit Margins (%)	21.9	11.9	15.5	12.8	11.8

**Balance Sheet (Btm)**

FY Dec / Sep *	2014A	2015A	*2016A	*2017F	*2018F
Net Fixed Assets	46,251	46,921	47,871	47,915	47,793
Invt in Associates & JVs	67,614	75,737	78,463	79,758	81,287
Other LT Assets	11,054	11,231	11,216	11,159	11,102
Cash & ST Invt	2,230	3,494	5,063	9,764	15,307
Inventory	35,084	35,204	38,145	40,568	42,140
Debtors	3,668	3,906	2,588	4,606	4,831
Other Current Assets	6,085	5,523	4,307	4,307	4,307
<b>Total Assets</b>	<b>171,987</b>	<b>182,017</b>	<b>187,653</b>	<b>198,078</b>	<b>206,767</b>
ST Debt	21,947	17,374	18,996	18,996	18,996
Creditor	4,803	4,851	4,532	3,799	3,946
Other Current Liab	9,286	10,865	9,290	14,179	14,819
LT Debt	26,555	24,883	25,089	20,089	15,089
Other LT Liabilities	4,720	4,778	6,033	6,033	6,033
Shareholder's Equity	101,263	115,885	120,070	131,339	144,242
Minority Interests	3,414	3,380	3,642	3,642	3,642
<b>Total Cap. &amp; Liab.</b>	<b>171,987</b>	<b>182,017</b>	<b>187,653</b>	<b>198,078</b>	<b>206,767</b>
Non-Cash Wkg. Capital	30,749	28,918	31,218	31,503	32,514
Net Cash/(Debt)	(46,272)	(38,763)	(39,022)	(29,321)	(18,778)
Debtors Turn (avg days)	8.5	8.0	8.5	6.5	8.1
Creditors Turn (avg days)	16.5	15.0	18.4	11.3	10.1
Inventory Turn (avg days)	115.3	109.0	143.6	106.7	107.9
Asset Turnover (x)	0.9	1.0	0.8	1.1	1.0
Current Ratio (x)	1.3	1.5	1.5	1.6	1.8
Quick Ratio (x)	0.2	0.2	0.2	0.4	0.5
Net Debt/Equity (X)	0.4	0.3	0.3	0.2	0.1
Net Debt/Equity ex MI (X)	0.5	0.3	0.3	0.2	0.1
Capex to Debt (%)	9.4	9.3	6.4	11.5	13.2
Z-Score (X)	7.0	7.5	7.0	7.7	8.2

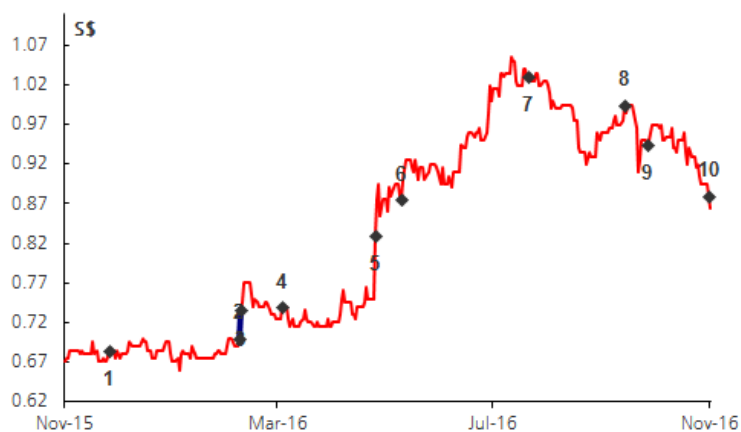
Source: Company, DBS Bank

## Cash Flow Statement (Btm)

FY Dec / Sep *	2014A	2015A	*2016A	*2017F	*2018F
Pre-Tax Profit	25,984	30,972	22,679	34,949	38,227
Dep. & Amort.	4,038	4,452	3,295	4,515	4,681
Tax Paid	(4,884)	(5,003)	(2,267)	(1,716)	(6,605)
Assoc. & JV Inc/(loss)	(3,389)	(7,774)	(3,375)	(3,496)	(3,729)
Chg in Wkg.Cap.	1,135	(1,236)	(1,750)	(5,174)	(1,650)
Other Operating CF	1,524	1,074	(92.4)	0.0	0.0
<b>Net Operating CF</b>	<b>24,409</b>	<b>22,486</b>	<b>18,490</b>	<b>29,078</b>	<b>30,924</b>
Capital Exp.(net)	(4,570)	(3,946)	(2,822)	(4,500)	(4,500)
Other Invt.(net)	6.50	0.0	0.0	0.0	0.0
Invt in Assoc. & JV	0.0	0.0	0.0	0.0	0.0
Div from Assoc & JV	6,903	2,276	2,356	2,200	2,200
Other Investing CF	268	1,552	20.0	0.0	0.0
<b>Net Investing CF</b>	<b>2,607</b>	<b>(118)</b>	<b>(446)</b>	<b>(2,300)</b>	<b>(2,300)</b>
Div Paid	(11,359)	(15,378)	(16,670)	(17,075)	(18,079)
Chg in Gross Debt	(17,202)	(3,728)	2,009	(5,000)	(5,000)
Capital Issues	0.0	0.0	0.0	0.0	0.0
Other Financing CF	(1,259)	(1,378)	(942)	0.0	0.0
<b>Net Financing CF</b>	<b>(29,820)</b>	<b>(20,484)</b>	<b>(15,603)</b>	<b>(22,075)</b>	<b>(23,079)</b>
Currency Adjustments	(65.0)	(622)	(870)	0.0	0.0
Chg in Cash	(2,869)	1,262	1,571	4,703	5,545
Opg CFPS (\$ cts)	3.72	3.79	3.24	5.48	5.21
Free CFPS (\$ cts)	3.17	2.97	2.51	3.93	4.23

Source: Company, DBS Bank

## Target Price &amp; Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	17 Dec 15	0.69	0.82	BUY
2:	29 Feb 16	0.70	0.82	BUY
3:	01 Mar 16	0.74	0.82	BUY
4:	24 Mar 16	0.74	0.82	BUY
5:	16 May 16	0.83	0.92	BUY
6:	31 May 16	0.88	0.92	BUY
7:	11 Aug 16	1.03	1.13	BUY
8:	04 Oct 16	1.00	1.13	BUY
9:	17 Oct 16	0.95	1.13	BUY
10:	21 Nov 16	0.88	1.09	BUY

Source: DBS Bank

Analyst: Andy SIM CFA

DBS Bank recommendations are based on Absolute Total Return\* Rating system, defined as follows:

**STRONG BUY** (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

**BUY** (>15% total return over the next 12 months for small caps, >10% for large caps)

**HOLD** (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

**FULLY VALUED** (negative total return i.e. > -10% over the next 12 months)

**SELL** (negative total return of > -20% over the next 3 months, with identifiable catalysts within this time frame)

*Share price appreciation + dividends*

Completed Date: 10 Apr 2017 09:48:26 (SGT)

Dissemination Date: 10 Apr 2017 11:20:31 (SGT)

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