Key Highlights

- **Coronavirus grabbing the headlines.** At this point, the virus seems to have a lower fatality rate as compared to SARS (2003). WHO has declared the outbreak an international emergency.
- **Sit tight and monitor.** Defensive investments are likely to outperform.
- **No sign of rate hikes.** US recession risk lower and UST curve no longer inverted. CIMB house view is a rate cut by the US Fed in 2Q20.
- **Bond Strategy.** We emphasize quality and resilient, investment grade corporate bonds (rated BBB- or higher) and seek to avoid high yield bonds on higher default risks.
- **Equity Strategy**. We expect moderate earnings growth in 2020 to support returns.

Strategy Updates

Investment Updates

Coronavirus situation grabbing the headlines. At this juncture, what is known is that the coronavirus appears to be less fatal (4% mortality according to World Health Organization [WHO]) than SARS (Severe Acute Respiratory syndrome) was in 2003 (11%), although we acknowledge that reporting is still in the early stages and the peak in severity remains unknown. As at 31 Jan 2020, the WHO has declared the outbreak as an international emergency.

Governments better prepared and more proactive. According to CGS-CIMB Research report (dated 23 Jan 2020), they opined that governments (given their prior experience with SARS) are taking much more proactive measures which should position markets better for a potential rebound from the recent selloff, should the outbreak remain controlled.

Reported cases are likely to spike given the Chinese New Year (CNY) - related travel, but there are heightened measures enacted: tighter control on large-scale public activity in China and closure of major tourist attractions, strict body temperature monitoring at airports and train stations and entry points, and mandatory reporting of fever detected.

Looking back at past pandemics, notably SARS in 2003 and the Avian flu in 2006 and 2013, equities turned risk off as investors positioned for reduced economic activity, according to CGS-CIMB Research. Moreover, the coronavirus outbreak is occurring during the CNY, a time of peak travel and public gathering, as well as a high point in economic activity for the year. Both the human impact and economic disruption are currently amplified by the timing, similar to the SARS outbreak which also peaked during the Lunar New Year in 2003.

From a macro standpoint, consumption and travel sectors are likely to be hit most acutely by a virus outbreak, so sectors like airlines, hotels, tourism and retail stocks are likely to be impacted. There is also the potential for spill-over effects to the global economy through trade and supply chain disruption. We have experienced similar events in the past, such as with SARS in 2003 and Swine Flu in 2009.

While markets have been quick to factor in heightened risks, CGS-CIMB Research believes it is too early to see any rebound in travel-related stocks. CNY-related travel may keep risks heightened in the immediate term. Classic defensive sectors in a sell-down across the Asean region would be utilities, petrochemicals, consumer staples, and telcos.

In terms of regional markets, CGS-CIMB Research believes the impact on Malaysia and Indonesia, given fewer cases of transmission, will be relatively

less severe. Hong Kong and Singapore, as transportation hubs, and Thailand's tourism-exposed economy will face the greatest risks.

Markets are likely to react negatively to the developing virus crisis. Statistics on infections and fatalities will rise, and more knowledge of the virus is unlikely to be comforting. However, authorities are generally better prepared, having learnt from the SARS (2003) and Avian flu (2006, 2013) epidemics.

Data will continue to be negative for some time given a) The official statistics are only catching up to the under-reporting and under-diagnosing of the actual infections; b) The China-wide travel due to the CNY timing of this epidemic will worsen the infection rate. Wuhan's mayor recently revealed that 5m Wuhan residents left the city before transport links were severed.

However, it is worthwhile to know that:

1. Chinese authorities have reacted much faster this time and more decisively, by restricting travel out of and into 18 cities in the Hubei province.

2. The Virus's DNA has already been sequenced and shared with health authorities worldwide, so the work to develop a vaccine has started. However, this is not expected for 6-12 months.

3. The fatality rate is currently lower than the fatality rate for SARS.

For now, we suggest to sit tight and monitor the developments. Against the developments, defensives are likely to perform better, we suggest to stay invested in quality bonds such as **Power Finance USD 3.90% 2029** or in the **United Global Healthcare Fund** which is an equity fund that invests in segments such as medical technology, health services, biotech and pharmaceuticals. The healthcare segment is traditionally more defensive and should help to offer good risk-adjusted returns.

No signs of policy rate hikes. In bonds, we expect bond prices to be supported as global policy rates are kept low driven by prospects of slower economic growth and low inflation. US recession risk is now lower (the UST yield curve is no longer inverted) but we remain cognizant of such risks regardless. Our house view is for one more rate cut by the US Fed in 2Q2020.

Bond strategy. With bond yields at near 2-year lows, the strong bond performance in 2019 may not repeat in 2020. Investors should dial down expectations and expect a more moderate and sustainable return over the medium term from regular income and mild capital gains.

We emphasize quality and resilient, investment grade corporate bonds (rated BBB- or higher) and seek to avoid high yield bonds on higher default risks. We also propose a bar-bell strategy where on one end, one should have short tenure bonds (not more than 3 years) and on the other end, have long tenure bonds (at least 10 years) to manage duration.

We would seek opportunities from a bottom-up view and highlight a credit: **La Mondiale USD 4.85% subordinated debt 2048 (callable Jan 28)**

Equity Strategy. We expect moderate earnings growth in 2020 to support returns. While valuations are not cheap relative to earnings outlook, the dovish monetary policies have altered the macro environment as well as eased recessionary concerns. Hence, we see tactical positives for equities in the short term.

The upcoming US Election will likely be a tailwind but the path may not be smooth. We note that since WWII, the average return on the S&P500 in a US election year is 6.3%, up to the election date. Excluding 2008 (GFC), the average return has been 8.4%.

We advocate more bottom-up stock selection. We have a relative preference for China equities over Hong Kong equities as we opine that China's growth slowdown is well-managed by policy tools. Although Hong Kong protests appear to have peaked, the severity and scale of the violence may have longer

term economic repercussions. We like technology leaders such as **Alibaba Group (9988 HK)** and Chinese consumption upgrade theme of which we highlight **China Mengniu Dairy Holdings (2319 HK)**.

For Singapore, GDP growth is expected to recover from a low base in 2019, helped by a pre-election budget to be announced on 18 Feb 2020. We stay focused on income yielders such as REITs. Despite the growth performance of REITs in 2019, the sector is still relevant in terms of the stability of their operating performance and the distribution yield for a portfolio. However, we are more selective from a bottom-up perspective given the prospects of further rate cuts have diminished. We prefer those growth oriented REITs with strong sponsors such as **Frasers Centerpoint Trust (FCT SP)**. For other income yielders, we highlight **ST Engineering (STE SP)** where its orders win momentum have been impressive (led by Aerospace and Electronics).

1. Fixed Income: Power Finance USD 3.90% 2029

Summary: Client may consider calculated exposure to Power Finance Corporation Limited ("POWFIN"), an Indian quasi-sovereign for additional yield pick-up based on (i) high probability of support from Government of India; (ii) healthy profitability and (iii) continued access to funding channels given government ownership. Despite concerns on asset quality/ concentration risk to Indian power sector, we take cognizant that non-performing loan formation has stablised.

Issuer Background: POWFIN is a 56%-government owned listed company that is registered with Reserve Bank of India as a Non-Banking Financial Corporation ("NBFC"). Post-acquisition of REC Ltd (formerly a government-owned NBFC power sector lender) for consideration of INR145.0 bln, POWFIN became India's largest government-owned finance provider in the power sector with consolidated total assets of INR6.28 trillion as of Mar 2019. 83% of its loan book is to government sector, which underpins its strategic role in development of the domestic power sector.

Salient Terms of Bond	
Issuer	Power Finance Corp. Ltd.
ISIN	XS205139671
Instrument Type	Senior Unsecured fixed rate note
Maturity Date	16/09/2029
Issue Rating	Baa3 (stb)/ BBB- (stb) by Moody's/ Fitch
Coupon Rate	3.90%
Ask Price/ YTC^	Please Call
Issue Size/ Min. Denom.	US$450.0 mil/ US$200,000.0
Change of Control	At 101, if among others, (i) government of India ceases to own, directly or indirectly, more than 50% of voting rights of the issued share capital of Issuer; or (ii) any consolidation, merger, sale or transfer will not result in the government of India losing control over the Issuer or successor entity.

^Source: Bloomberg (as of 24/01/20): on gross basis.

Investment Considerations:

- **POWFIN plays an important policy role in providing financial assistance to state electricity boards, state governments etc**. Of total gross loan of INR3.25 trillion, 83% consist government-related borrowers; and 17% are from private sector. In view of its govt. ownership and strategic importance, rating agencies had factored in high level of extraordinary support from the government. For instance, Moody's has incorporated 3-notch uplift in assigning POWFIN's Baa3 rating. Meanwhile Fitch's assigned rating of BBB- equalised with those of India's (BBB-).
- **Favourable funding options**: Given its govt. linkages, POWFIN had been able to diversify its funding mix and tap various funding channels (domestic bonds: 63.7%; revolving TL: 16.5%; foreign currency borrowings: 14.6%; subordinated bonds: 3.26%; CP: 1.03%; and others). Furthermore, POWFIN reported cost of funds stood at 7.86%, which is relatively lower than other NBFC such as Indiabulls Housing at 8.85%.

Despite acquisition of REC Ltd, Issuer managed to bolster its capital adequacy position due to continued capital generation as evidenced by healthy standalone yield of earning assets (Mar 18: 10.64%; Mar 19: 10.62%; 6M Sept 19: 10.60%). CAR and Tier 1 capital stood at 18.37% and 13.33%, respectively as of Sept 19. (Note: minimum regulatory requirement of Tier I capital is10.0%.)

Key Risks include:

- **Given its high concentration risk in power sector, asset quality risks remain**. Standalone NPA (stage 3) and net NPA (stage 3) stood at 9.05% and 4.28%, respectively as of Sept 19. Meanwhile, Issuer's single largest borrower and top 10 borrowers accounted for 7.87% and 42.11% of total outstanding loans, respectively.

  Despite relatively high Non-Performing Assets ratios (by Western standards), we note that POWFIN standalone NPA ratio has been declining sequentially (Mar 18: 9.63%; Mar 19: 9.39%; 6M Sept 19: 9.05%). Separately, POWFIN has made significant provisioning since Apr 2018 under RBI's NPA classification. Its net NPA had declined to 4.28% in Sept 19 from 10.55% back in March 17. As of Sept 19, loan provision/NPA ratio is reported to be 53%.

  Under RBI's Prudential Framework for Resolution of Stressed Assets June 19, we also noted that PFC has been pursuing resolution of NPA. Around 32% of its NPA are presently being filed and admitted to National Company Law Tribunal.
- **Merger between PFC and REC presents an overhang**: There has been discussion of a potential merger between POWFIN and its subsidiary REC for synergy purposes given the 2 entities have overlapping functions. This has possibly led to POWFIN bonds trading wider than other Indian quasi-sovereign.

  Notwithstanding that, Issuer has to consider risk of triggering the "Change of Control" clauses incorporated in its existing bonds if Indian government fails to maintain control over the potential "merged entity". Thus, Issuer would need to address several roadblocks before going ahead with the merger.
- **More cautious outlook on Indian macro**: Recent outlook revision to negative by Moody's warrants a more cautious outlook on India macro in view of how India government is addressing its budget deficit. Analysts are of the view that India will not be able to meet its budget deficit target of 3.3% (Bloomberg consensus of -3.8%). We also take note that POWFIN's ratings by Moody's and Fitch are linked to Indian sovereign ratings. As such, any negative rating action would result in similar movement on the

Issuer given the assumption of extraordinary support from government in times of need.

- **Pricing/ Relative Value:** Concerns on asset quality, Indian macro conditions and potential merger between POWFIN/REC have continued to weigh on the spreads of POWFIN. That said, we opine that current spread of 210 bps above 10Y UST presents a proposition to clients who are looking for risk-to-reward play. In addition, we wish to highlight the steep 5s/10s curve for POWFIN, which is currently hovering around 75 bps vs EXIMBK (Indian quasi-sovereign) at around 50 bps^. This spread difference is relative high compared to 5s/10s of Chinese quasi-sovereign like HAOHUA (35 bps); and HRINTH (50 bps).

^EXIMBK 3.875% 23 (YTM: 2.70%): EXIMBK 3.25% 30 (YTM: 3.30%).

2. Fixed Income: La Mondiale USD 4.85% subordinated debt 2048 (callable Jan 28)

Salient Terms of Bond	
Issuer	La Mondiale
ISIN	XS1751476679
Instrument Type	Tier 2 Subordinated debt
Tenor	30 Non-call 10
Maturity Date	18 Jan 2048
1st Call Date	18 Jan 2028
Coupon Rate	4.80%
Coupon Reset Formula	If not called on the call date, coupon reset based on prevailing 5Y UST + 3.235%
Ask Price/ YTC^	Please Call
Option Coupon Deferral	Yes, the Issuer may elect to defer coupon at its discretion.
Mandatory Coupon Deferral	Upon occurrence of Regulatory Deficiency Event* or such interest payment would itself cause a Regulatory Deficiency Event.
Mandatory Redemption Deferral	Redemption/ purchase is subject to among others, no Regulatory Deficiency Event has occurred and is continuing; and such redemption itself would not cause a Regulatory Deficiency Event.

Summary: We have a stable outlook on this credit underpinned by its healthy capital adequacy position, long operating record and reputation in the French insurance industry. We take note of La Mondale's higher exposure to long-term liabilities with guaranteed rates, which makes it prone to interest rates volatility and in turn impact its solvency ratios. That said, the relatively high SCR ratio of 229% partially mitigates the Issuer from triggering the regulatory deficiency event.

Issuer Background:

- La Mondiale (the "Issuer") is a 100-year old French insurer specializing in life & pension insurance, with total assets amounting to EUR 105.2 bln as of 1H19.
- La Mondiale together with another subgroup called SGAPS AG2R La Mondiale ("SGAPS") are members of a mutual insurance group called SGAM AG2R La Mondiale ("SGAM"). SGAM operates under French legal framework that allows mutual & non-profit insurers to come together and create operational and financial solidarity links with other members of SGAM.
- La Mondiale subgroup specializes in savings/pension and retirement related products. It has 4 key business units namely La Mondiale, Arial CNP Assurance, La Mondiale Partenaire and La Mondiale Europartner.

^Source: Bloomberg (as of 17/01/20): on gross basis

Credit Rating:

Issuer Rating	A- (positive) by S&P
Subdebt Issue Rating	BBB by S&P

Source: Bloomberg

Considerations

- **Well-known brand with leading market position**: Top 3 in French private wealth savings (i.e. unit-linked insurance); #1 in French self-employed retirement plans market; #1 in group supplementary pension market (via Arial CNP Assurance).
- **Profitability track record** – Issuer has been generating profits since 2009 whereby it reported gross premium of EUR6.16 bln and net profit of EUR292.8 mil for FY18. We note that La Mondiale's gross premium has been declining since FY14 (EUR7.86 bln) mainly attributed to the competitive landscape of French insurance industry from large scale providers.
- **Conservative asset allocation**: As of 1H19, La Mondiale had a relatively conservative asset allocation of which 79% of its investment portfolio was allocated into bonds, followed by 10.4% in equities and 7.9% is real estate. Within fixed income allocation of EUR56.8 bln, > 80% of credit exposure are rated A- and above.

Key Risks:

- **Significant LT pension liabilities with guaranteed rate** to policyholders exposes La Mondiale to interest rate sensitivity (General account: 69%; unit-linked insurance: 31%). Interest rate volatility will affect Issuer's solvency ratios and asset-liability surplus. In a declining interest rates environment, return of bond portfolio could possibly fall below the guaranteed rate to policyholders and thus, affect company's duration gap and solvency ratio.

Mitigant: Issuer has been reducing its exposure to general account to boost profitability – 69% of La Mondiale's liabilities as of 1H19. Furthermore, the average guaranteed rate had dropped from 1.09% in 2013 to 0.74% in 2018. Meanwhile, share of liabilities with a guaranteed rate above 3.5% has been shrinking over the years (8% in 2018). In addition, the Issuer also reported large investment spreads of 208 –227 bps over its savings and pension liabilities, which acts as a buffer against the contracted guaranteed rate to policyholders.

- **Multiple regulatory deficiency triggers** – Bond is subjected to mandatory coupon/ redemption deferral if La Mondiale or SGAM does not have sufficient own funds to cover their respective SCR or MCR.

Mitigant: La Mondiale reported 1H19 SCR coverage ratio of 229%, which translates to a buffer of EUR4.89 bln before breaching 100% of SCR (EUR4.89 bln is ~16.7x of FY18's net income of EUR291.96 mil). Meanwhile, SGAM reported SCR coverage ratio of 185%, which represents a healthy buffer of EUR5.17 bln prior to reaching 100% of SCR.

Notes:

- The drop in SCR coverage ratio between FY18 and 1H19 was due to lower interest rates in 1H19; the EIOPA yield curve dropped by almost 100 bps during the period.
- General account is generally liabilities that guarantee returns for policyholders. For unit-linked insurance, investment risk falls on policyholders.

* Defined as own funds regulatory capital of La Mondiale or SGAM is insufficient to cover the solvency capital requirement ("SCR") or minimum capital requirement ("MCR").

3. Equity Fund: United Global Healthcare Fund

Fund Objective. The investment objective of the Fund is to achieve long-term capital growth by investing in securities issued by companies principally involved in the development, production or distribution of products, equipment and/or services related to healthcare, in any part of the world. Such investments would include investing in sub-sectors of the healthcare industry such as medical products, health services, major pharmaceuticals, and specialty pharmaceuticals.

Investment Approach. The investment process starts with idea generations from company, medical and scientific meetings, medical and scientific journals, street research, etc. Fundamental sub-sector assessment will be carried out through existing franchise and pipeline evaluation, operational excellence and breakthrough life science tools, etc.

Bottom-up stock analysis, combined with top-down risk monitoring, will determine portfolio construction.

The Fund has been managed by the experienced team from Wellington Asset Management since 2000. Wellington Asset Management takes a specialist approach to stock evaluation and selection – majority of the team has deep medical or scientific background and industry expertise.

The team performs intensive, fundamental, proprietary, bottom-up research to invest long-term in a growth industry with a value approach. At the same time, the team benefits from Wellington's broad resources and strong collaborative culture.

The benchmark used is the MSCI ACWI Healthcare Index.

Top Holdings	%
Medtronic	3.38
Boston Scientific	3.17
Bristol Myers Squibb	3.11
Anthem	3.10
Astrazeneca	3.10
United Healthcare	2.84
Thermo Fisher Scientifid	2.65
Novartis	2.15
Edwards Lifesciences	2.02
Eisai	1.99

Source: Fund Factsheet (Oct 2019)

Country Breakdown	%
Japan	64.47
UK	5.87
Ireland	5.7
China	5.66
Switzerland	3.07
Belgium	1.98
Netherlands	1.83
Others	3.63

Source: Fund Factsheet (Oct 2019)

Sector Breakdown	%
Biotechnology	28.00
Pharmaceuticals	24.64
Health Care Equipment	21.02
Managed Healthcare	8.65
Life Sciences Tools & Services	5.09
Health Care Facilities	4.16
Health Care Technology	1.24
Healthcare Supplies	0.95
Others	1.51
Cash	4.75

Source: Fund Factsheet (Oct 2019)

According to Bloomberg, the Fund (Distribution class) has a 1-Year Volatililty of 15.19% and a 1-Year Sharpe Ratio of 1.42.

Going forward, the fund manager expects fundamentals across the health care sector to remain solid, supported by strong volume growth and groundbreaking innovation across many therapeutic areas. That said, with 2020 being an election year, health care policy may remain in focus, increasing the risk of short-term volatility.

We believe this Fund should be more suited to investors who have the risk appetite for sectoral exposure, and would like healthcare exposure to be part of their overall diversified Equity portfolio.

4. Equity: Alibaba Group (9988 HK)

Summary. Alibaba is the best proxy to China's rapidly expanding middle class. Its strong profitability track record, leadership position in China's nascent cloud computing market, untapped synergies across Alibaba's ecosystem provides upside potential.

Background. Alibaba is the world's largest online and mobile commerce company as measured by Gross Merchandise Value (GMV). The company operates China's most visited online marketplaces including Taobao (consumer-to-consumer) and Tmall (business-to-consumer). Besides that, Alibaba also derives its revenue from international retail/ wholesale marketplaces (AliExpress, Alibaba.com, Lazada), cloud computing (AliCloud), digital media and entertainment platforms (Youku, Alibaba Pictures etc.), local consumer services (Ele.me and Koubei), logistics services (Cainiao) and innovation initiatives/others (Amap.com, Tmall Genie etc.).

Its controlling shareholders are Softbank (18.8%), Altaba and Skywalk Finance.

Considerations.

Proxy for China's expanding middle class. According to China statistics agency, China's middle class is estimated to be at nearly 400 mil, less than a third of the total population. In comparison, more than half of the US population is considered middle class. The expanding middle class with higher consumption per capita is likely to drive total retail sales as China transitions into a developed country. China retail e-commerce sales as a percentage of total retail sales is estimated to grow from 30% in 2018 to 64% in 2023, an average annualized rate of 16% (Source: eMarketer). Alibaba should be a prime beneficiary of Chinese consumption growth story.

Market leader in cloud computing. AliCloud is the leading cloud player in China with 43.2% market share (Source: IDC) in China Public Cloud IaaS, followed by Tencent Cloud (12.2%). AliCloud provides cost-effective IT solutions and digital transformation services such as digitization of customer insights, inventory, work flow and resource planning. Given the low penetration rate of Chinese public cloud market (10% vs 22% in US), there is still vast potential for AliCloud.

Management plans to pursue investments in strategic areas such as lower-tier e-commerce market as competition has intensified with Pinduoduo (PDD) rapidly gaining market share. Moving forward, Alibaba is likely to continue delivering sustainable profit growth with improving loss margins in new initiatives (Ele.me etc.), monetization of new advertising formats (live streaming etc.) and expanding presence in lower-tier markets.

Index inclusion. A potential catalyst is the inclusion of Alibaba's shares into Hong Kong's Stock Connect upon satisfying certain requirements, which should attract fund inflows from China-based investors.

Key risks include: 1) Margin pressures from competition and investments, 2) Regulatory risks related to Ant Financial, 3) Macro slowdown in China.

5. Equity: China Mengniu Diary (2319 HK)

Summary. China Mengniu Dairy is a consumption upgrade play to ride on the structural growth of China's dairy sector, being the second largest dairy producer. Mengniu's continuous shift to higher-margin products through new product launches and accretive overseas M&As enables it to ride on consumer 'premiumization' trends with China's expanding middle class. Its new distribution channels enabled through Alibaba's LST system allows it to quickly scale up its reach to lower tier cities

Background. China Mengniu Dairy (Mengniu) is the second largest dairy product manufacturer in China. Mengniu's product range include liquid milk products (UHT milk, milk beverages, yoghurt), ice cream, milk formula and other dairy products such as cheese & plant-based nutritional food.

Key sales contributor is liquid milk comprising 83% of 1H19 revenue, followed by milk formula (11%) and ice cream & others (6%). Within the liquid milk segment, growth has been driven by UHT milk (key brands: Milk Deluxe, Mengniu Pure Milk) and yoghurt (key brands: Just Yoghurt, Champion).

Mengniu's largest shareholder is COFCO, China's state-owned food processing company, with 32% stake

Considerations.

Structural growth of China's dairy sector. China's dairy consumption per capita is relatively low, at about 36kg a year, vs. Japan and South Korea's 50kg. Dairy demand is set to grow driven by growing health awareness, an expanding middle class, urbanization and relaxation of the One Child policy. Due to lactose intolerance, yoghurt has enjoyed the fastest growth and in particular, room temperature (UHT) yoghurt given that it can be distributed to remote areas whereby the chilled chain infrastructure is still underdeveloped. Mengniu is in a good position to benefit as it has highest market share in chilled yoghurt (34.5%) & e-commerce liquid milk (26.5%) and second highest for UHT milk (28.5%) as at 1H19.

Riding on consumer 'premiumization' trends. With the expanding middle class with rising disposable income, Chinese consumers are trading up and demanding better quality products with more varieties. High-end products such as organic milk, room temperature and chilled yoghurt, chilled fresh milk, cheese products, organic formula and goat milk powder are key growth engines. Mengniu is able to tap on this trend with its continuous product innovations to cater for the higher-end market.

New acquisitions to strengthen its portfolio. Mengniu made two recent Australian acquisitions, Lion Dairy & Drinks (Nov-19) and Bellamy (Sep-19). Lion Dairy & Drinks is an Australian dairy and beverage producer, previously owned by Japan-based Kirin Holdings. Bellamy is a leading Australian organic infant milk formula and baby food company.

Attractive growth prospects with projected 3-year EPS CAGR of 22%. CGS-CIMB is projecting Mengniu's EPS to grow by 25% in FY19F and a further 22% in FY20F, which have not included the recent new acquisitions.

Key risks include: 1) Higher raw milk prices in China impacting margins, 2) intense price competition and 3) longer-than-expected approval for overseas M&A.

6. Equity: Frasers Centerpoint Trust (FCT SP)

Summary. As the second largest listed mall landlord and a pure play suburban mall operator in Singapore, we believe Frasers Centerpoint Trust's ("FCT") focus on suburban malls makes it more resilient against the weaker consumer spending. While its existing malls provide income stability, the recent acquisition of Waterway Point, and asset injection opportunity from Real Estate Asia Retail Fund Limited would provide FCT with a new growth trajectory.

Background. Frasers Centerpoint Trust ("FCT") is a pure Singapore sub-urban mall operator. As of end 3qfy2019, the following malls contributed to its Net Property Income ("NPI"):

Causeway Point (46.3%); Northpoint City North Wing & Yishun 10 retail podium (28.9%); Changi City Point (13%); Yew Tee Point (6.8%); Anchorpoint (2.8%); Bedok Point (2.2%)

Considerations.

Outlook for rental reversions. Rental reversion continued its positive trend at +4.8%, including Waterway Point ("WWP"), in FY19. We understand that 44% of the expiring leases have been pre-committed at better rates. We believe the bulk of the remainder should be renewed at favourable rates as 70% of the expiring leases are from its three largest malls – CP, Northpoint City North Wing (NCNW), and WP – which command high foot traffic.

Portfolio shopper traffic grew a strong 8.9% yoy in 4QFY19, attributable mainly to the higher traffic registered at NCNW following the opening of Yishun Integrated Transport Hub which is connected to Northpoint City.

The acquisition of WP and PGIM Real Estate Asia Fund (PREAF) will continue to fuel growth in FY20F. Potential asset injections from PREAF could serve as the next re-rating catalysts. FCT has completed the acquisitions of a 21.13% stake in PREAFL in Apr 19 and 33.3% of Waterway Point in Jul 2019. Both acquisitions should be positive as the acquired malls fit into FCT's current portfolio and solidify FCT's position as a pure play Singapore suburban mall focused operator.

Sponsor Frasers Property's (FPL) new retail platform, together with FPL and FCT's joint 88% stake in PREAF, and the potential medium-term pipeline from the S$1.1bn Northpoint City South Wing provides FCT with the best runway for acquisition-led growth over the medium term.

Inclusion into the EPRA/ NAREIT Global Real Estate Index Series. FCT has been included into the above index during the September review and this should raise its profile in the international investment community and further improve its trading liquidity.

Key risks include 1) weak retail spending leading to weaker-than-expected rental growth; 2) sharper than expected rises in interest rates.

7. Equity: ST Engineering (STE SP)

Summary. We like STE for its diversification of business. CGS-CIMB Research believes the 15% yoy earnings growth in FY19-20F could be supported by the execution of its S$15.9bn order book. Order momentum was impressive at its Aerospace and Electronics division.

We continue to like ST Engineering's diversification of business. It can be viewed as a defensive quality blue-chip with visible earnings growth driven by new contract wins and consolidation of new acquisitions.

Considerations.

Impressive contract order wins. Year-to-date contract wins for electronics totalled S$2.35 bn and could hit a record S$3 bn if the momentum continues. Order momentum at its Aerospace division was also impressive with S$ 1bn won in 3QFY19 and YTD order wins stood at S$3.1 bn (vs S$2.1 bn in 2018).

Source: Compiled from company data

The next key driver for electronics could come from the new satellite communication business (Newtec) consolidation that begins in 4Q19.

Consolidation of MRAS should continue to yield strong profits growth for ST Engineering (MRAS contributed S$ 22 mil in 3Q19 or 33% of Aerospace profit of S$ 65 mil). Production ramp up is expected in MRAS based on an estimated Airbus demand of approximately 60 units per month.

Order book execution. As of 3Q19, ST Engineering's order book stood at a high of SGD 15.9 bn (SG 2.2 bn to be delivered in 4Q19). CGS-CIMB Research beloeves their 15% yoy earnings growth in FY19-20F for ST Engineering could be supported by the execution of its S$ 15.9 bn order book.

Diversified business. We continue to like ST Engineering's diversification of business. It can be viewed as a defensive quality blue-chip with visible earnings growth driven by new contract wins and consolidation of new acquisitions.

Key risks include 1) slower macro outlook that could lead to delay in orders given to ST Engineering; 2) competitive threats that re-route orders away from its traditional business.

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