CIMB preferred

INSIGHTS

MAR 2020

Key Highlights

- **US Elections on the cards.** Approval ratings for Donald Trump at 49% in latest Gallup poll.
- **COVID-19 Updates.** Global health crisis far from over, though data is showing improvement. Governments may introduce stimulus measures.
- **Equity Strategy**. Focus on stocks with strong fundamentals.
- **Fixed Income Strategy**. Asian credits should be well supported given their more attractive yields.

Strategy Updates

Investment Updates

Update: US Elections.

Key calendar events. According to the BBC, the presidential nominees are chosen through a series of primaries and caucuses in every US state and territory. This started in Iowa on 3 February and is expected to end in early June.

- A **Caucus** involves people attending a meeting before they vote on their preferred candidate, perhaps via a head count or a show of hands. This year, Democrats are holding caucuses in only four states - Nevada, North Dakota, Wyoming and Iowa.
- In a **Primary**, party members vote (through a formal polling event at polling stations) for the best candidate to represent them in the general election.

After going through the Primaries and Caucuses, each party holds **a National Convention** to select a national presidential nominee. At each convention, the presidential candidate also chooses a running mate (candidate as Vice President).

Donald Trump will almost certainly be sworn in as the Republican nominee at the party convention in Charlotte, North Carolina, between 24 and 27 August. The Democrats will confirm their candidate at their own convention between 13 and 16 July in Milwaukee, Wisconsin.

Trump is currently popular among Republicans, and has a clear lead ahead of the next competitor. Against this backdrop, the Democratic primaries are the ones that the market and the media are focusing on.

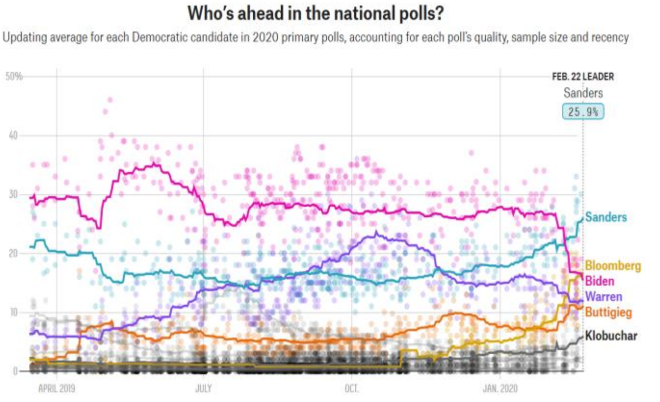
The Democrat Candidates. At the point of writing, the key Democrat candidates are:

Candidate	Events
Bernie Sanders (Age 78)	• Policy stance tilted towards socialist and has die-hard fans in the liberal camp, especially younger votes disenchanted by wealth inequality and weakness of US social safety net. • Key issues: Medicare-for-All universal healthcare coverage; raising taxes on the wealthiest Americans; upping the minimum wage.
Elizabeth Warren (age 70)	• Was a tenured law professor at Harvard Law School from 19993-2013 • Senator from Massachusetts • Key issues: Wealth tax; healthcare and abortion rights; criminalising corporate negligence.
Joe Biden (Age 77)	• Former US Vice President(2009-2017) under Barack Obama • Key issues: Rebuilding the middle class; investing in federal

	infrastructure; tuition-free public universities.
Pete Buttigieg (Age 38)	• Former South Bend mayor began the primary race as a relatively unknown • Rhodes Scholar/ combat experience • Key issues: Political reform; LGBTQ rights; college loan relief.
Michael Bloomberg (Age 77)	• Late entrant to the democratic context, billionaire Michael (CEO of Bloomberg LP) has recognition as New York City major from 2002- 2013 • Spending heavily of his own money on political campaigning & advertising • Key issues: Economy, immigration, gun control and climate change

In terms of their ideology, Bernie Sanders is viewed as the most liberal of the five, followed by Elizabeth Warren, Joe Biden, Pete Buttigieg with the least liberal being Michael Bloomberg.

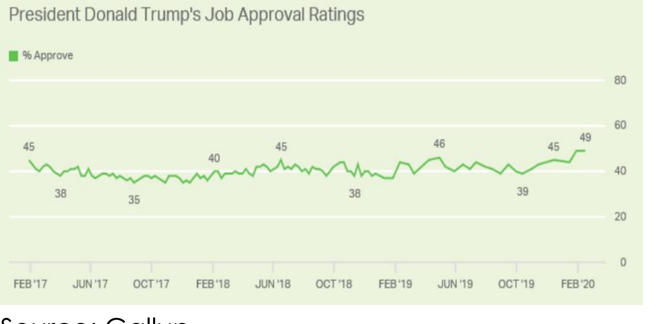
Current polling. Based on national average polls as of 22 Feb 2020, Bernie Sanders is currently in the lead at 25.9%, followed by Michael Bloomberg (16.5%), Joe Biden at 16.5%, Elizabeth Warren at 11.9% and Buttigieg at 10.9%. We also note that the late-comer Bloomberg appears to be catching up, but stress that the situation remains highly fluid. The next outcome to watch for will be the Super Tuesday on 03 Mar.



Source: fivethirtyeight.com

Approval Ratings Poll for Donald Trump remains elevated at 49% in the latest Gallup poll, the same as in the previous poll and up five points from an early Jan poll conducted before Trump was acquitted by the Senate in his impeachment trial.

This poll is similar to its previous poll and marks the first time since January 2017 that Trump has a net positive approval rating (approval - disapproval) in the Gallup poll. The average poll also shows that Trump has been gaining ground nationally.



Source: Gallup

The election proceedings may cause immediate capital spending to be placed on hold until greater clarity arises. This however also comes at a time when the fiscal stimulus (e.g. tax cuts) that have helped to support businesses in 2019 begin to taper off.

We should not expect rivalry between the US and China to change significantly (for the better) under a democratic President. Hence, there may still be risks that tariffs may continue to be used against China.

For the moment, markets are still discounting a re-election of Trump (a Republican). We assess the impact to some sectors based on policies proposed by the Democrats. It is important to note that there will always be winners and losers in an Election year, and not all worries turn out to be true:

- **US Technology Sector.** There have been talks about online privacy, tech competition as well as anti-trust law (breaking up of tech monopolies). This is a risk to some of the larger tech companies.
- **US Healthcare sector.** There may be greater uncertainty to the outlook for big pharmaceutical companies under a Healthcare-for-All scheme, and a focus on bringing down drug costs.
- **US Energy sector's** main risk may come from stricter regulations for climate and in an extreme case, the banning of fracking. This poses risks to the upstream exploration companies with higher exposure to fracking and other related service providers.
- There are talks about raising the minimum wage and to boost labor unions. While the longer term impact on higher wages to consumption could be positive, the immediate impact to such a raise would likely result in higher cost to the **Food & Beverage, Hospitality and Retail sectors** in the US.

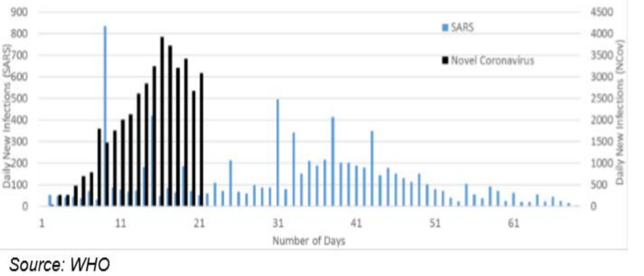
CoronaVirus (COVID-19) Update. We expect news on the coronavirus to continue to affect risk sentiment in the near term and remain a potential source of market volatility. However, similar to the SARS episode, signs of peak media attention and case growth rate could potentially indicate buying opportunities.

Fear Factor. Fear and negative sentiment has gripped Asian communities and consumers largely because of the draconian measures taken by authorities. Social media and the sheer number of infected persons have also contributed to the sentiment. The possibility of a progressive downgrade of China GDP is also rising - now the second largest economy (only the 6th largest during SARS pandemic). However, the data seems to be showing some improvement for now.

Near a peak? There are reasons to believe we could be near a peak of the crisis which in turn, should mark the bottom of equity markets. No two crises are identical, and there will likely still be data which will support the negative sentiment and/or fundamentals.

The first meaningful drop in new infections was reported on 07 Feb (See Chart - black bars). The day also marked the second consecutive day of decline in new infections in China ex-Hubei.

New daily infections: Coronavirus vs SARS



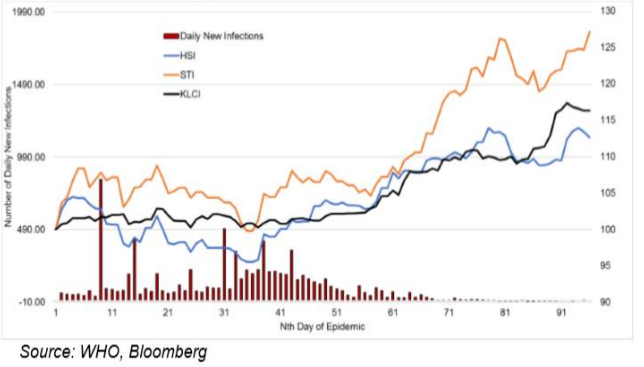
Source: WHO

On 12 Feb, the Hubei Province announced a huge jump in new cases and fatalities. This was due to a change in the methodology. Beforehand, positive results were not confirmed until lab tests were done. Now they are counting clinical confirmations (e.g. based on symptoms, X-rays, or other means that help match the virus).

SARS - Peak of new infections marked the bottom in equity markets During the SARS pandemic, new infections peaked in the 5th week, and days after peak infections, markets in Hong Kong, Singapore and Malaysia bottomed and turned around.

Even after this peak, infections still 'rebounded' or periodically rose. Such a rebound of new infections is possible especially after workers travel across China to return to work. About 37% of China's workforce are migrant workers.

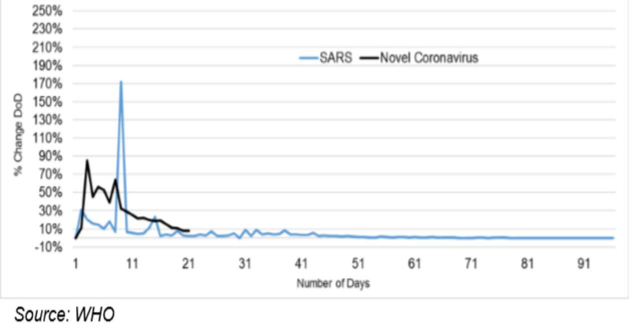
New infections and equity markets during SARS



Source: WHO, Bloomberg

The day-on-day change in new infections has dropped to below 10%. During the SARS pandemic, single digit day-on-day changes in infections preceded a bottom in markets by under two weeks.

Day-on-Day change in total infections



Source: WHO

Markets appear to be more sanguine about the COVID-19 epidemic. There are a number of reasons for this:

- ❑ This is not the first time such epidemics have occurred. There was SARS (2003), H5N1 (2006), H1N1 (2009) and MERS (2013).
- ❑ Mortality rate of nCoV appears to be around 2%, and could be lower once the epidemic is over.
- ❑ Health authorities are much better prepared to curtail its spread, with over 70 countries imposing travel restrictions on Chinese travellers, and China imposing travel restrictions and city-wide lock-downs.
- ❑ There are sporadic reports of patients being successfully treated by existing drugs/medicines, and that only 20-30% of infections show severe symptoms.
- ❑ Governments could introduce fiscal measures ('stimulus') to support their economies, which would boost markets

Conclusion. Although the global health crisis looks far from over, we believe we are near the peak of the infections, or have passed peak infection rates, which in the past has marked the bottom of markets. We introduce a list of stocks which will likely recover and rebound from the effects of this Coronavirus epidemic, as we believe we are close to, or in the worst case, peak of the crisis.

Strategy. US elections outcome continue to remain a fluid risk hence any US exposure should be via selective stock picks from a bottom up perspective. We should focus on stocks with strong fundamentals and/or with near term catalysts, and reiterate **S&P Global (SPGI US)** and **Electronic Arts (EA US)**.

On a relative basis, we think Asian fixed income and Asian Equity presents relative valuation appeal against the developed market. Dovish monetary policies are likely to remain for long, and Asian central banks have stronger impetus to ease more to help with the economic support to combat the slowdown from COVID-19. Notably, Asian credit and Asian fixed income should be well supported given these bonds' more attractive yields than most other credit markets. We reiterate the **Fullerton Asian Bond Fund.**

For direct credit, we are highlighting the bond - **First Sponsor Group SGD 3.29% 2025.**

We have discussed a potential peak of the virus outbreak (at least for China). Our preferred avenue would be actively managed funds especially those investing in China/ Greater China given its large investment universe. We reiterate the **JPM China A-Share Opportunities Fund.**

1. Equity: S&P Global (SPGI US)

Summary: We like S&P Global for its well-entrenched position in a few key areas- namely global corporate ratings and financial data indices, which enables it to have strong pricing power and enjoy high profitability. It also has high base of recurring income (through subscription and asset-linked fees) which provides a high level of revenue visibility, a trait that is very appealing in the current uncertain macro environment. Key 2020 strategic initiatives by the company is to bring its Ratings and Market Intelligence programs into China, while expanding Platts and Ratings capabilities in Asia. Company will also fully leverage all assets into ESG offerings. All these initiatives will add incremental growth prospects to the group.

Background. The key business division for SPGI is broken down into 1) S&P Global Ratings; 2) S&P Global Market Intelligence; 3) S&P Global Platts; 4) S&P Dow Jones.

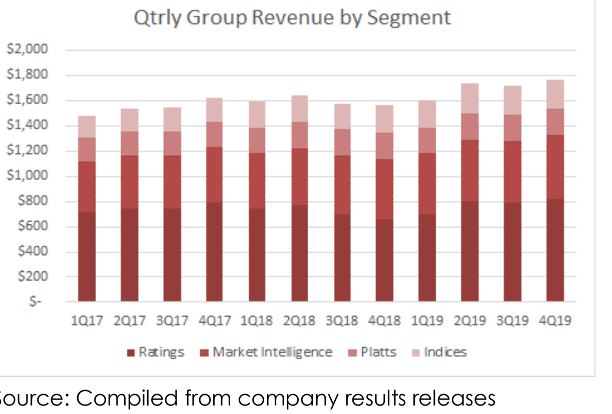
- **S&P Global Ratings (~46% FY19 Revenue, before eliminations)** is a leading provider of credit ratings, research and insights. It is largely split in to Non-Transaction and Transactional business. The former pertains to surveillance of a credit rating annual fees and fees for entity credit ratings and global research analytics. Transactions is ratings for new issuances.
- **S&P Global Market Intelligence (~29% of FY19 revenue)** key capabilities include the Market Intelligence and S&P Capital IQ platforms, credit assessment tools, and enterprise data feeds. The revenue for the division is predominantly subscription based.
- **S&P Global Platts (~13% FY19 revenue)** is the leading independent provider of information and benchmark prices for the energy and commodity markets. S&P Global Platts coverage includes oil and natural gas, power, petrochemicals, metals, agriculture, and shipping. Main revenue is subscriptions.
- **S&P Dow Jones Indices (~14% FY19 revenue)** is a resource for index-based concepts, data, and research. Roughly 62% of FY18 revenue is from asset-linked revenue (mainly Licensing fees on assets invested in products linked to S&P Dow Jones Indices as well as for OTC derivatives and structured products). Roughly 21% comes from royalties based on trading volume on Exchange-Traded Derivatives (sales usage-based royalties revenue).

Considerations.

- **Entrenched positioning enables pricing power and assures high profitability**. Credit ratings are well-entrenched in the processes of issuers, investors and regulators. Over the long run, we believe the potential for new types of securities that require ratings is high. This combination of steady growth in issuance and pricing power suggest that both S&P Global and Moody's can steadily increase revenue at a steady rate for many years to come.
- **High and building recurring income base a key appeal.** The Big Three agencies still accounted for 95% of total outstanding ratings at end of 2017. The two most important segments are financial institutions and corporate issuers. These are the biggest and most frequent issuer types and they give S&P an annuitized stream of payments. Having corporate and financial issuers as a core reduces much of the cyclicality in credit ratings.

Furthermore, we believe the company's Platts and market intelligence segments will contribute to higher margins in the future. We believe the business of providing the data that underpins futures and exchange contracts and investment processes will become increasingly lucrative, especially as the company reaps the benefits of past investments in proprietary data sets.

We understand that roughly 74% of S&P Global's 2018 revenue was tied to subscription revenue, non-transaction revenue, and asset-linked fees that are ongoing in nature which provides high revenue visibility in a volatile and uncertain environment.



Source: Compiled from company results releases

- **Issuances, while it helps, is less of a share price factor over the long term**. For S&P and Moody's, investors will naturally be fixated with quarterly and annual issuance. This can often lead to significant over-reactions in the stock prices of these companies as it's not uncommon to see issuance grow 20% from the previous year in one issue segment and then decline significantly the next year. Historically, S&P and Moody's have been able to offset weak issuance in one type of bond with strength in another type of bond.
- **When issuance is challenged across the global economy, Moody's and S&P rely on pricing to offset weakness.** Since 2000, S&P has seen only two declines in revenue in corporates, financials, and government bond ratings. The first happened in 2008 during the GFC and the 2nd happened in 2018 as a result of a shift in U.S. tax policy that pulled forward revenue

into 2017. During those 2 periods, both Moody's and S&P had been able to quickly respond with pricing with regards to issuances.

- **Outlook for issuances over the medium term continue to look stable**, on the back of high maturing levels of debt (e.g. Global Corporate High Yield Debt) in the coming years while global issuances are expected to increase 4% in 2020 (5% if exclude International Public Finance)
- **Other Opportunities**. Key 2020 strategic initiatives by the company is to bring its Ratings and Market Intelligence programs into China, while expanding Platts and Ratings capabilities in Asia. Company will also fully leverage all assets into ESG offerings

Key risks include short-term share price volatility may be tied to outlook for credit issuance, as well as tighter regulatory oversight on the credit rating agencies.

2. Equity: Electronic Arts (EA US)

Summary. We believe the near term tactical play on Electronic Arts ("EA") is the looming release of new gaming consoles and new technology to support game streaming. Recent results appear to be recovering from its games release and growth prospects coming from its near-term pipeline. The rest lies on EA's execution strategy on tapping the longer term opportunities on 1) further positive mix shift to digital, 2) consumer adoption of micro-transactions driving incremental monetization, as well as 3) the expansion of EA's addressable market to target the global online user base as it moves towards subscription based services.

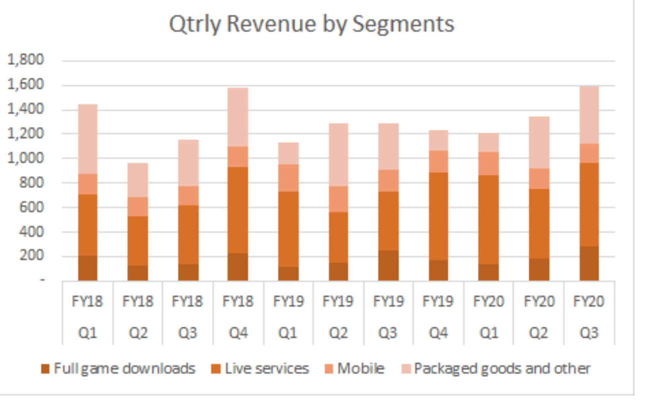
Background.

- **Electronic Arts ("EA") is of the one of the world's largest 3rd party video game publishers on consoles**. It develops, market, publish and deliver games and services that can be played on a variety of platforms such as game consoles, PCs, mobile phones and tablets. In their games and services, they use brands that they either wholly own (such as Battlefield, The Sims, Apex Legends, Anthem, Need for Speed and Plants v. Zombies) or license from others (such as FIFA, Madden NFL and Star Wars). EA's more famous franchises, include Madden, FIFA, Battlefield, Mass Effect, Dragon's Age, and Need for Speed. EA recently signed a 10-year contract with Disney that granted EA the exclusive rights to develop Star Wars games for core gamers across all platforms.
- **Business segments** is broken down into 1) Digital Services (71% of 3QFY20 net revenue) which include full-game downloads, Live Services and Mobile; 2) Packaged Goods and Others (29% net 3QFY20 revenue). Full game downloads (18% 3QFY20 net revenue) includes revenue from digital sales of full games on console and PC. Live services (42% of group net 3QFY20 revenue) includes revenue from sales of extra content for console, PC, browser games, game software licensed to third-party publishing partners who distribute EA's games. Mobile (10% 3QFY20 net revenue) includes revenue from the sale of full games and extra content on mobile phones and tablets. Finally, Packaged goods net revenue includes revenue from software that is sold physically.
- By Platforms, bulk of net revenues came from consoles, followed by PC/ browser and then Mobile/ others.

Considerations

Console cycle and games pipeline should provide near term boost. At the end of 2020, it was expected that new video game consoles will be released by the likes of Sony (new PlayStation) and Microsoft (Xbox), respectively during the holiday season. When new consoles are released, consumers tend to buy the new consoles, along with all new games that are exclusively compatible with the new consoles. On top of that, EA has already announced and releases a coupon of new titles (many of which are its core franchises). At the same time, EA has a strong pipeline of core games releases for this year and next, and these releases should underpin higher revenue for the near term.

EA has traditionally been strong in sports, so its recent launch of Star Wars Jedi: Fallen Order would be important to EA in terms of diversification. EA recently said its new release - Star Wars Jedi: Fallen Order, quickly became its best-selling digital release of a Star Wars title in the first two weeks of sales and that it became its best-selling title for PC in that span as well. In the year ahead, the free-to-play (F2P) Fortnite competitor Apex Legends is still a focus and is expected to bring in $300 million to $400 million in bookings, as is the Sims 4. This explained the recent recovering in quarterly revenue as well as net bookings on a trailing 12-month basis.



Source: Compiled from company results release

Subscription service growing. Content still king. There has been a few developments on EA's subscription service. EA's subscription video game service EA Access – already available on Microsoft's Xbox One and Sony's Playstation 4 consoles -- came to the PC via Origin Access. This should be a key milestone for EA as the race to video game streaming heats up. This progress should present an opportunity for EA . Most importantly, we opined that content creation is still most important in the gaming space, and we believe EA remained well positioned while cognizant of the heating competition

Key risks include 1) The company has been hit with complaints regarding its in-game money-making techniques; 2) competition from new free-to-play rival game makers, and 3) a general industry transition to cloud-based gaming. Alphabet's Google entered the game streaming fray in November 2019 with the release of its Stadia game streaming platform.

3. Unit Trust Fund: Fullerton Asian Bond Fund

Objective. The Fund invests primarily in debt securities denominated in USD and Asian currencies; issued by companies, governments and quasi-governments, agencies or supra-nationals in the Asian region.

The Asian countries include, but are not limited to; China (including Hong Kong SAR and Taiwan), South Korea, India, Thailand, Malaysia, Singapore, Indonesia, the Philippines, Pakistan and Vietnam.

The benchmark for the Fund is the JACI Investment Grade Total Return.

Philosophy. The fund manager aims to capture sources of alpha in interest rate, credit and currency via its investment process of top-down macro analysis, as well as bottom-up credit selection and yield curve positioning. The objective is to achieve long-term capital appreciation for investors.

Within this framework, the Investment Manager will evaluate whether bond markets offer value, the relative value across markets and the outlook for credit. These views form the basis for formulating their duration, bond market allocation, currency and credit strategies. Foreign Direct Investments ("FDIs") may be used for efficient portfolio management purposes.

Top5 Holdings	*%*
PCCW Capital No 4 Ltd 5.75% Apr 2022	1.7
Sands China Ltd 5.4% Aug 2028	1.4
Dai-Ichi Life Insurance 5.1% Oct 2049	1.4
Parkway Pantai 4.25% PERP	1.3
PT Pelabuhan Indonesia II 5.375% May 2045	1.3

Source: Fund Factsheet (Dec 2019)

Rating Breakdown	*%*
AAA	0.4
AA	0.1
A	16.6
BBB	57.7
BB	14.5
B	9.7
C	0.1
Cash and Cash Equivalents	0.9

Source: Fund Factsheet (Dec 2019)

Geographic Breakdown	*%*
Australia	3.7
China	33.1
France	1.1
Hong Kong	9.8
India	7.7
Indonesia	11.6
Japan	3.3
Korea	3.4
Macau	1.7
Malaysia	1.7
Singapore	12.8
Thailand	1.8
UK	2.8
Others	4.6
Cash and Cash Equivalents	0.9

Source: Fund Factsheet (Dec 2019)

According to the factsheet, the Fund has an Average Duration of 4.7 years and Yield-to-Worst of 4.1%.

According to Bloomberg, the Fund has a 1-year Sharpe Ratio of 4.87 a 1-year Volatility of 1.66% and a Trailing-Twelve-Months Dividend Yield of 3.90%.

The Fund may be suited for investors who seek long-term capital gain, wish to find exposure to fixed income in Asian region, with the appetite for opportunities that come with the volatility and risks of a fund exposed to debt securities denominated in USD and Asian currencies (which may include non-investment grade securities).

4. Unit Trust Fund: JPM China A-Shares Opportunities Fund

Objective. To provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC).

Philosophy. The investment objective of the China A-Share Opportunities Fund is to provide long-term capital growth by investing primarily in companies of the People's Republic of China (PRC). The Fund uses an investment process based on a fundamental, bottom-up stock selection process. It uses a high conviction approach to finding the best investment ideas and seeks to identify high quality companies with superior and sustainable growth potential.

At least 67% of assets invested in China A-Shares of companies that are domiciled, or carrying out the main part of their economic activity, in the PRC through the China-Hong Kong Stock Connect Programmes, the RQFII and QFII quotas. These investments may include small capitalisation companies. The Fund may be concentrated in a limited number of securities or sectors from time to time.

Top 10 Holdings	*%*
Ping An Insurance	*8.8*
Kweichow Moutai	*6.6*
Jiangsu Hengrui Medicine	*4.6*
China Merchants Bank	*4.4*
China Vanke	*3.8*
Wuliangye Yibin	*3.2*
Midea	*3.0*
Ping An Bank	*2.9*
Luxshare Precision Industry	*2.9*
Inner Mongolia Yili Industrial	*2.7*

Source: Fund Factsheet (Dec 2019)

Sector Breakdown	*%*
Financials	29.5
Consumer Staples	17.5
Information Technology	16.1
Health Care	13.2
Industrials	10.3
Consumer Discretionary	9.0
Utilities	2.3
Materials	1.0
Others	0.0
Cash	1.1

Source: Fund Factsheet (Dec 2019)

According to the factsheet, the Fund has a 1-Yr Beta of 0.91%, and 1-Yr volatility of 20.11%

The Fund may be suited for investors who seek long-term capital gain, wish to find exposure to fixed income in Asian region, with the appetite for opportunities that come with the volatility and risks of a fund exposed to the Chinese equity market.

5. Fixed Income: First Sponsor Group SGD 3.29% 2025

Summary: We see value in the 5Y senior unsecured bond issued by FSG in view that it is trading at YTM of c. 3.20%, representing spread of over 170 bps points over 5Y Singapore government bond. Clients may consider this credit in view of (i) established controlling shareholders (35.9% indirectly owned by City Development Ltd); (ii) recurring income from hospitality and commercial assets in Europe; and (iii) prudent business strategy in the Chinese property development sector.

Background: First Sponsor Group Ltd ("FSG") is a property company listed on the SGX with a market capitalisation of S$1.1bn. Business is segmentised into property development (primarily Chengdu & Dongguan), property investment holding (includes 16 hotels in Netherlands) and property financing (including entrusted loans to Mainland Chinese developers).

Key shareholder includes M&C Hospitality International Ltd. (35.89% ownership in FSG) which is a subsidiary of City Development Ltd, which is in turn controlled by Hong Leong Group Singapore. In addition, Tak Tak Estates Sdn Bhd ("Tai Tak") is reported to have deemed interest of c. 46% in FSG.

Salient Terms of Bond	
Issuer	First Sponsor Group Ltd.
ISIN	Not available yet
Instrument Type	Senior Unsecured fixed rate note
Maturity Date	20/02/2025
Issue Rating	Unrated
Coupon Rate	3.29%, semi-annually
Ask Price/ YTC^	100.30 / 3.22
Issue Size/ Min. Denom.	S$100.00 mil/ S$250,000.0
Financial Covenants	i. Consolidated total equity shall not at any time be less than S$620,000,000; and ii. Ratio of consolidated net debt to consolidated total equity shall not at any time be more than 0.8x.

^Source: Bloomberg (as of 17/02/20): on gross basis.

Investment Considerations:

- **Business spans across different geographies:** 58% of group's assets are in China; of which 32.4% is in property development and 19.1% consist property financing loans to Chinese developers. European portfolio (hotels and offices in Germany & Netherlands) comprises the remaining 40% of FSG's assets.
- **Supported by established controlling shareholders:** Given the shareholding of 35.89% by CDL, Issuer is deemed an associate of CDL. FSG is able to leverage on its controlling shareholders business networks to grow its business.
- **Healthy liquidity**: Net gearing as of end FY19 stood at 0.2x, which is deemed manageable. ST debt due in 2020 is reported to be S$251.9 m vis-à-vis cash/cash equivalent of S$313.39 mil. Noted that, the group has an unutilized credit headroom of S$410.2 mil for their further expansion plans.

Key Risks include:

- **Exposure to Chinese property development sector**. We note that group is relatively prudent and selective in its business expansion. Most of the groups's existing project development in China (5 in Dongguan, 1 in Chengdu) are via associates and JVs, which could minimise FSG's direct risk exposure to Chinese property market. In addition, group provides property financing to Chinese developers via entrusted loan arrangement. Management deemed this business segment to be attractive given the continued scarcity of onshore bank credit extended to certain Chinese developers. FSG's China property financing loan book stood at approx. RMB2.4 bn as of end FY19.
- **Default risk of 3rd party property financing.** While this business segment is lucrative, the risk of potential defaults remains and it could be time-consuming to recover loans from defaulters. FSG's experienced management team is expected to practice prudent risk management in property financing decisions. We also note that FSG is selective in its project partner; for instance the group entered to a cooperation agreement with subsidiaries of renowned Chinese developer, Sunac China Holdings Ltd, to among others provide project financing loan to finance a 86.000 sqm residenital project.
- **Risk of Coronavirus outbreak in China.** Based on recent financial results disclosure, management guided that it was still premature for them to ascertain the full financial impact from the virus on FSG, especially on their take-up rate for their projects in Dongguang, Guangdong province.

FY19 Financial Highlights:

FY19 revenue and PBT was at S$319.16 mil (+15.1% yoy). Top line growth is mainly driven by higher units of Chengdu Millennium Waterfront project being handed over (4Q19: 864 units vs 4Q18: 502 units) and additional property investment contribution from Bilderberg Bellevue Hotel Dresden acquired in March 19 and Hampton by Hilton Utrecht Centraal Station, which commenced operations in June 2019.

Meanwhile, PBT stood at S$194.20 mil (+34.3% yoy). Breakdown in PBT as follows: property development: S$160.6 mil; property financing: S$74.6 mil; property Investment: S$34.6mn; and hotel operations and others: –S$63.8mn. The jump in PBT was partially due to higher reported share of profit of associates and JVs (S$71.2 mil in FY19 vs S$5.5m in FY18). This was attributed to 30%-owned Star of River Project in Dongguan (S$43.8 mil) and; fair value gain on disposal of the Oliphant, Netherlands (held by 33%-owned associate).

As of Dec 19. gearing and net gearing position remained healthy at 0.2x (improvement from 0.4x as of FY18). Meanwhile cash and cash equivalent rose to S$313.39 mil from S$125.7 mil a year ago, partially due to conversion of S$147.6 mil of perpetual convertible capital securities.

Pricing/ Relative Value:

Bond	Market Cap. (S$ bn)	Total Assets (S$ bn)	Net Gearing	Ask Price	YTM (%)	Spread (bps)*
FSGSP 3.29 2025	1.06	2.76	0.20x	100.30	3.22	172
WINGTA 4.7% 2024	1.54	4.44	0.12x	106.81	2.90	140
AGSP 3.15% 2025	Not listed	4.99	0.65x	100.55	3.03	153
GUOLSP 3.4% 2025	2.11	10.97	0.97x	100.00	3.38	188

** above 5Y SIGB*

Source: Bloomberg as of 14/02/20

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