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SINGAPORE
HONG KONG

Retail Market Monitor

Thursday, 07 September 2023

WHAT HAPPENED LAST NIGHT

US stocks were lower on Wednesday, as the losses in the information technology, consumer discretionary and health care sectors led shares lower. At the close of the NYSE, the DJIA fell 0.57% while the S&P 500 index was down by 0.70%, and the NASDAQ Composite index slid 1.06%. Falling stocks outnumbered advancing ones on the NYSE by 1,805 to 1,087 and 109 ended unchanged; on the Nasdaq Stock Exchange, 2,809 declined and 1,425 advanced, while 191 ended unchanged. (Source: WSJ, Bloomberg)

WHAT'S IN THE PACK

China/HK Sector Update:

Banking - Not all bad for banks after several rate cuts.

In August, the PBOC lowered the 1-year LPR by 10bp to 3.45%, while surprisingly keeping the 5-year LPR at 4.20%. Additionally, the PBOC also allowed the repricing of existing mortgages to reduce mortgage borrowers' …

Singapore Company Update:

Digital Core REIT - Overcoming resistance as Cyxtera is rehabilitated.

(DCREIT SP / BUY / US$0.565 / Target: US$0.73)

DCREIT's second-largest tenant Cyxtera has resumed payment of rents since July and is on track to emerge from the court-supervised chapter 11 bankruptcy restructuring by fall of this year (4Q23). Cyxtera reported growth …

Singapore Technical Analysis:

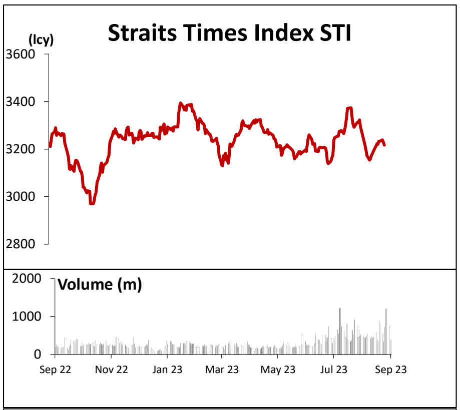
Wilmar International (WIL SP) - Trading BUY

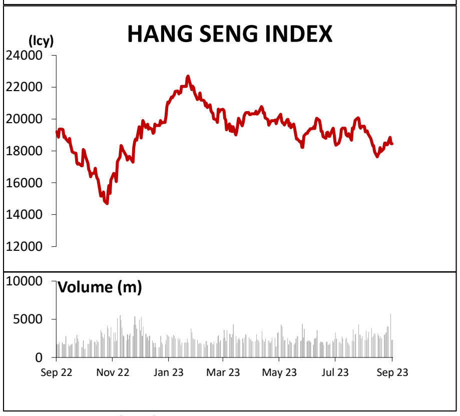
Price managed to stay above the middle Bollinger band, which is also the 20-day moving average…

PropNex (PROP SP) - Trading BUY

Price rebounded after forming a base low at S$0.88. The RSI is rising from the oversold region and is moving higher towards its neutral level…

PRICE CHART





KEY INDICES

	Prev Close	1M %	YTD %
DJIA	34321.1	(2.1)	3.5
S&P 500	4445.5	(0.7)	15.8
FTSE 100	7426.1	(1.8)	(0.3)
AS30	7461.6	(0.8)	3.3
CSI 300	3812.0	(4.5)	(1.5)
FSSTI	3222.9	(2.6)	(0.9)
HSCEI	6403.7	(4.9)	(4.5)
HSI	18450.0	(5.6)	(6.7)
JCI	6996.0	1.6	2.1
KLCI	1460.6	1.0	(2.3)
KOSPI	2563.3	(0.7)	14.6
Nikkei 225	33241.0	3.1	27.4
SET	1548.8	1.1	(7.2)
TWSE	16738.2	(1.5)	18.4
BDI	1081	(4.8)	(28.6)
CPO (RM/mt)	3845	0.5	(5.0)
Brent Crude (US$/bbl)	91	5.1	5.6

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YESTERDAY IN SINGAPORE

The Straits Times Index (STI) closed 3.95pt lower to 3,222.88. Among the top active stocks were Seatrium (-2.8%), Yangzijiang Shipbuilding (+1.2%), Genting Singapore (-0.6%), Rex International (+0.6%) and SIA (-2.2%). The FTSE ST Mid Cap Index rose 0.3%, while the FTSE ST Small Cap Index fell 0.2%. The broader market saw 263 gainers and 271 losers with total trading value of S$875.2m.

SINGAPORE

TOP VOLUME

Company	Price (S$)	Chg (%)	Volume ('000s)
Seatrium	0.14	(2.8)	496,733
Yangzijiang Shipbuilding	1.68	1.2	35,895
Genting Singapore	0.89	(0.6)	23,007
Lendlease Global Commercial	0.55	(0.9)	18,663
Singapore Telecommunications	2.34	(0.4)	15,686

TOP GAINERS

Company	Price (S$)	Chg (%)	Volume ('000s)
PropNex	0.93	3.3	1,762
Bumitama Agri	0.56	2.8	1,322
UOB-Kay Hian Holdings	1.40	2.2	34
CDL Hospitality Trusts	1.05	1.9	1,719
First Sponsor Group	1.23	1.7	10

TOP LOSERS

Company	Price (S$)	Chg (%)	Volume ('000s)
Ho Bee Land	1.79	(5.3)	299
Mandarin Oriental Intl	1.70	(4.5)	40
Sinarmas Land	0.19	(4.0)	6
Seatrium	0.14	(2.8)	496,733
Sembcorp Industries	5.08	(2.7)	13,887

HONG KONG

TOP VOLUME

Stock	Price (HK$)	Chg (%)	Vol ('000)
Country Garden Holdings	1.22	20.8	2,395,386
China Construction Bank	4.33	1.2	323,989
China Tower Corp	0.77	1.3	257,059
Bank Of China	2.71	1.1	251,360
Sensetime Group Inc	1.59	(0.6)	184,688

TOP GAINERS

Stock	Price (HK$)	Chg (%)	Vol ('000)
Country Garden Holdings	1.22	20.8	2,395,386
KE Holdings Inc	49.90	7.2	2,869
Country Garden Services	10.14	5.8	90,077
Longfor Group Holdings	17.90	4.6	37,852
Yankuang Energy Group	14.12	4.4	44,141

TOP LOSERS

Stock	Price (HK$)	Chg (%)	Vol ('000)
JD Logistics Inc	10.52	(2.8)	7,610
Techtronic Industries Co	76.90	(2.7)	5,971
Shenzhou International Group	77.00	(2.7)	4,292
Sunny Optical Tech	64.50	(2.7)	5,443
Orient Overseas Intl	102.40	(2.7)	1,109

SINGAPORE TRADERS' CORNER

Wilmar International (WIL SP)

Trading buy range: S$3.68-3.69

Last price: S$3.69

Target price: S$3.90

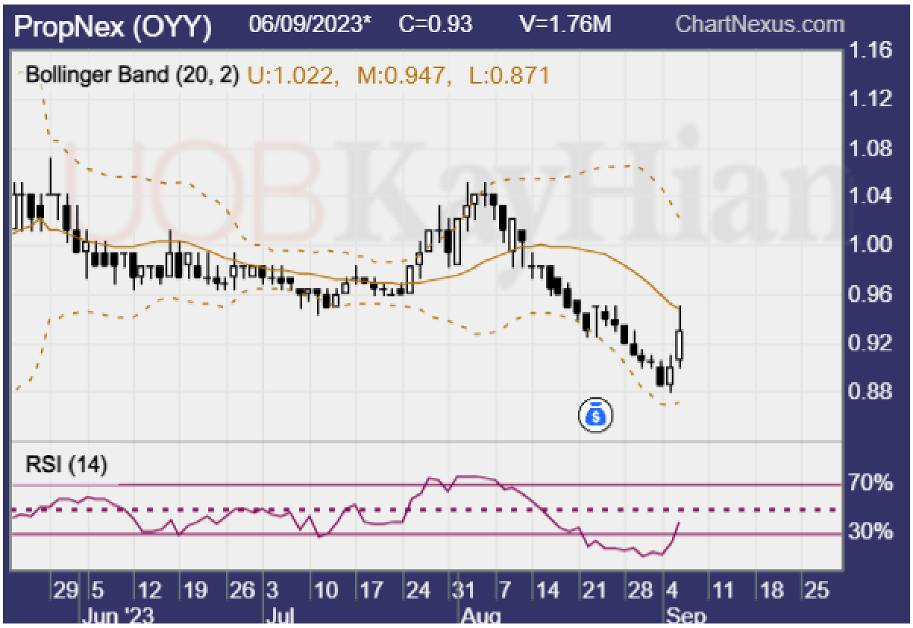
Protective stop: S$3.63

Price managed to stay above the middle Bollinger band, which is also the 20-day moving average. The RSI is rising above its neutral level. These could increase chances of the stock price continuing to move higher.

We see increasing odds of stock price testing S$3.90. Stops could be placed at S$3.63.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$4.30.



PropNex (PROP SP)

Trading buy range: S$0.925-0.930

Last price: S$0.930

Target price: S$1.040

Protective stop: S$0.870

Price rebounded after forming a base low at S$0.88. The RSI is rising from the oversold region and is moving higher towards its neutral level. These could increase chances of the stock price moving higher.

We see increasing odds of stock price testing S$1.04. Stops could be placed at S$0.87.

Approximate timeframe on average: 1-2 weeks (initiate this trade idea if the stock hits the entry price range within three trading days)

Our institutional research has a fundamental BUY and target price of S$1.23.

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FROM THE REGIONAL MORNING NOTES...

Digital Core REIT (DCREIT SP)

Overcoming Resistance As Cyxtera Is Rehabilitated

DCREIT's second-largest tenant Cyxtera has resumed payment of rents since July and is on track to emerge from the court-supervised chapter 11 bankruptcy restructuring by fall of this year (4Q23). Cyxtera reported growth in EBITDA of 10.7% yoy in 2Q23. DCREIT's inclusion in FTSE EPRA Nareit Global Developed Index will enhance trading liquidity. DCREIT provides a distribution yield of 6.5% for 2023 (KDCREIT: 4.8%, MINT: 6.1%). Maintain BUY. Target price: US$0.73.

WHAT'S NEW

- **Cyxtera filed plan of reorganisation.** Digital Core REIT's (DCREIT) second-largest tenant Cyxtera has filed a proposed Plan of Reorganisation with the Bankruptcy Court for the District of New Jersey, which is supported by lenders who hold over two-thirds of its outstanding debt, in Aug 23. The reorganisation plan provides flexibility for Cyxtera to pursue a balance sheet recapitalisation or a sale of the business If approved and executed, the plan would wipe out debt of more than US$950m.

- **Cyxtera on track to emerge from restructuring by 4Q23.** Cyxtera has received multiple qualified bids for the sale of its business. Final bids to acquire Cyxtera's business were submitted by 18 Aug 23. Cyxtera has announced that it is on track to emerge from the court-supervised chapter 11 bankruptcy restructuring by fall of this year (4Q23).

- **Green shoots in 2Q23 business update.** Cyxtera has released a business update for 2Q23. Its total revenue increased by US$14.9m or 8.1% yoy to US$199.0m in 2Q23. Adjusted EBITDA expanded by US$6.4m or 10.7% yoy to US$66.4m.

- **Cyxtera collaborating with HPE.** Cyxtera has entered into collaboration with Hewlett Packard Enterprise (HPE) to offer its Enterprise Bare Metal solution with HPE ProLiant servers. The integrated solution helps customers simplify their IT operations, improve agility, and realise significant cost savings. Customers are able to optimise their hybrid IT infrastructures and scale up rapidly.

- **Inclusion in FTSE EPRA Nareit Global Developed Index.** DCREIT will be included in the FTSE EPRA Nareit Global Developed Index with effect from the market close on 15 Sep 23. The inclusion will attract new capital inflows from global index funds. It is one of only two pure-play data centre REITs in the FTSE EPRA Nareit Developed Asia Index.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F	2025F
Net turnover	n.a.	115	109	107	107
EBITDA	n.a.	72	71	70	70
Operating profit	n.a.	72	71	70	70
Net profit (rep./act.)	n.a.	13	(79)	39	38
Net profit (adj.)	n.a.	42	41	38	38
EPU (US$ cent)	n.a.	3.7	3.7	3.4	3.3
DPU (US$ cent)	n.a.	4.0	3.7	3.6	3.6
PE (x)	n.a.	15.1	15.4	16.7	17.2
P/B (x)	n.a.	0.7	0.8	0.8	0.8
DPU Yld (%)	n.a.	7.0	6.5	6.3	6.4
Net margin (%)	n.a.	11.7	(72.0)	36.0	35.4
Net debt/(cash) to equity (%)	n.a.	50.3	62.6	65.7	69.1
Interest cover (x)	n.a.	6.7	2.9	2.6	2.5
ROE (%)	n.a.	n.a.	n.a.	4.9	4.9
Consensus DPhgU (US$ cent)	n.a.	n.a.	3.6	3.6	3.5
UOBKH/Consensus (x)	-	-	1.02	0.99	1.04

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Cyxtera has resumed payment of rents since July.** DCREIT's second-largest customer Cyxtera, a global colocation and interconnection provider accounting for 22% of total annualised rent, filed for chapter 11 bankruptcy protection on 4 Jun 23. Cyxtera was current on rents till May 23. It was in arrears in June but resumed payment of rents in July. DCREIT intends to recover the rental obligation for June as an administrative expense claim through the bankruptcy process.

- **Two data centres in Los Angeles could be rejected.** Cyxtera fully occupies five shell & core data centres, comprising three in Silicon Valley (occupancy: 95%) and two in Los Angeles (occupancy: 57%). It has to decide to accept or reject its lease agreements. The two data centres in Los Angeles are at risk of being rejected due to low end-customer occupancy of 57%, which is close to breakeven levels. Fortunately, they accounted for a smaller 7.7% of portfolio valuation and 6.4% of annualised rent. Comparatively, the three data centres in Silicon Valley accounted for 18.4% of portfolio valuation and 15.1% of annualised rent.

- **Potential to establish direct relationships with end-customers.** DCREIT has expertise in operating colocation facilities and could establish direct relationship with Cyxtera's colocation customers if the leases are rejected. There is room for positive rental reversion as in-place passing rents are 5-15% below market.

- **Positive attributes of affected data centres.** Two of DCREIT's data centres in Silicon Valley, namely 2401 Walsh Avenue and 2403 Walsh Avenue, are located next to Nvidia. One of its data centres at 200 North Nash Street in Los Angeles is near two subsea cables landing points owned by Google and Meta Platforms.

- **AI boosts demand for data centre space.** Artificial intelligence (AI) is expected to contribute to continued growth in IT spending as a percentage of global GDP. Sizeable artificial intelligence requirements have begun to materialise faster than expected in 2Q23. According to datacenterHawk, North America experienced record absorption of 850MW in 2Q23. AI is a major driver of the record new demand.

EARNINGS REVISION/RISK

- We raised our 2024 DPU forecast by 12% after factoring in full occupancy for the three data centres in Silicon Valley and assuming DCREIT backfills half of the data centre spaces at two data centres in Los Angeles occupied by Cyxtera.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US$0.73 is based on DDM (cost of equity: 7.0% (previous: 7.25%), terminal growth: 2.2%).

- **Pure play on data centre.** DCREIT provides a distribution yield of 6.5% for 2023F (KDCREIT: 4.8% and MINT: 6.1%).

SHARE PRICE CATALYST

- Organic growth from cash rental escalation of 1-3% (weighted average: 2%).

- Yield-accretive acquisitions tapping on sponsor's large data centre pipeline.

KEY OPERATING METRICS

	2Q22	3Q22	4Q22	1Q23	2Q23	yoy % chg	qoq % chg*
DPU (US cents)	2.06	n.a.	1.92	n.a.	1.92	-6.8%	0.0%
Occupancy	100.0%	100.0%	98.0%	97.0%	97.0%	-3ppt	0ppt
Aggregate Leverage	25.7%	26.2%	34.0%	34.4%	34.2%	8.5ppt	-0.2ppt
Average Cost of Debt	2.3%	3.1%	3.9%	4.1%	4.7%	2.4ppt	0.6ppt
WALE by Annualised Rents (years)	5.2	5.0	4.5	4.2	3.9	-1.3yrs	-0.3yrs
Weighted Average Debt Maturity (years)	4.4	4.2	3.6	3.7	3.4	-1yrs	-0.3yrs
% of Borrowings in Fixed Rates	50%	50%	75%	74%	72%	22ppt	-2ppt

** hoh % chg for DPU*
Source: DCREIT, UOB Kay Hian

FROM THE REGIONAL MORNING NOTES...

Banking – China

Not All Bad For Banks After Several Rate Cuts

In August, the PBOC lowered the 1-year LPR by 10bp to 3.45%, while surprisingly keeping the 5-year LPR at 4.20%. Additionally, the PBOC also allowed the repricing of existing mortgages to reduce mortgage borrowers' financial burden. Against this backdrop, banks cut time deposit rates by a larger quantum to defend their NIM. All in all, the net impact of these rate cuts is minimal to banks' NIM and earnings. Maintain MARKET WEIGHT. Top pick: China Merchants Bank.

WHAT'S NEW

- **Asymmetrical LPR cut in Aug 23.** The People's Bank of China (PBOC) reduced the 1-year loan prime rate (LPR) by 10bp from 3.55% to 3.45% and maintained the mortgage reference rate, 5-year LPR at 4.20% after the 10bp medium-term lending facility (MLF) rate cut on 15 August. The partial rate cuts were in accordance with the PBOC's intention to maintain reasonable profits and NIM for the banks in order to support economic recovery and stabilise the financial risk. At the same time, the unchanged 5-year LPR has created scope to cut rates for existing mortgage rates.

- **To allow mortgage repricing for existing first-home loans from 25 September.** In a joint statement last week, the PBOC and the National Administration of Financial Regulation allowed the borrowers to negotiate with banks to adjust the interest rates of their first-home outstanding mortgages, either by reducing the spreads in mortgage contracts, or swapping for a new mortgage. The new mortgage rate should not be lower than the floor limit of first-home mortgages rate that the city adopted when the original loan was issued.

- **Second deposit rate cut via self-discipline pricing mechanism to alleviate NIM compression.** Most state-owned (SOE) banks and joint-stock banks have lowered their deposit rates in the last week. Among these, rates for 1-year/2-year/3-year/5-year term fixed deposits were reduced by 10bp/20bp/25bp/25bp to 1.55%/1.85%/2.20%/2.25% respectively while the demand deposit rate remained unchanged at 0.2%. The size of deposit rate cuts round are much larger than the previous round in order to mitigate the impact of reduced loan yields arising from the recent key policy rate cuts.

ACTION

- **Less impacts on banks after half-measure LPR cuts.** We forecast that 34% of total loans (Rmb65,879b) are pegged to the 1-year LPR and most of them comprise short-term loan and advances. As such, the banks' net interest income (NII) will fall by Rmb27.4b and Rmb65.9b in 2023 and 2024 respectively, contributing a 0.9bp and 2.1bp dilution to net interest margin (NIM). Thus, banks' profit after tax in 2023/24 will be reduced by 0.9%/1.9%. We opine that banks, particularly state-owned banks, with a larger share of mortgage loans and mid to long-term corporate loans in their loan portfolios will be less affected by the latest LPR cut.

ESTIMATED IMPACT OF 1-YEAR LPR CUT ON CHINA'S EXISTING TOTAL LOANS

Total loan (as of Jul 23)	Household Mid & Long-term Loans	Corporate Mid & Long-term Loans	Estimated 1-yr LPR linked loan	Estimated affected loan as % of total loan (in Jul 23)
Rmb193,709b	Rmb42,174b	Rmb85,655b	Rmb65,879b	34.0%

Source: PBOC, CBIRC, UOB Kay Hian

PEER COMPARISON

Company	Ticker	Rec	Price @ 6 Sep 23 (LCY)	Target Price (LCY)	Market Cap (LCY b)	Upside / (Downside) to TP (%)	PE 2023F (x)	PE 2024F (x)	P/B 2023F (x)	P/B 2024F (x)	Yield 2023F (x)	Yield 2024F (x)	ROE 2023F (%)	ROE 2024F (%)	NIM 2023F (%)	NIM 2024F (%)
CCB	939 HK	BUY	4.33	6.30	1,103.3	45.5	2.9	2.7	0.33	0.31	10.3	11.3	11.6	11.6	1.84	1.88
CMB	3968 HK	BUY	33.00	50.00	888.7	51.5	5.2	4.5	0.73	0.66	6.3	7.3	16.6	17.0	2.20	2.25

Source: Bloomberg, UOB Kay Hian

ESTIMATED IMPACT OF 1-YEAR LPR CUT ON CHINA BANKS

NII chg		Net Profit Forecast		NIM impact		Net Profit Impact	
2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
-Rmb27.4b	-Rmb65.9b	Rmb2,418b	Rmb2,539b	-0.9bp	-2.1bp	-0.9%	-1.9%

Source: UOB Kay Hian

- **Impact of mortgage repricing on existing first-home loans is smaller than our expectations.** We expect mortgage loans issued between 2017-22 to benefit from the rate cut, as mortgage rates during that period were much higher than the national floor mortgage rate. Assuming that 90% of them are first-home buyers, around Rm25,650b mortgage loans or 65% of total mortgage book will be repriced to the national floor first-home mortgage rate. As a result, we expect the existing mortgage rate to be reduced by 60bp on average. This is a more pessimistic estimate as some cities' minimum mortgage rates for first homes are much higher than the national rate.

ESTIMATED EXISTING MORTGAGE BALANCE TO BE REPRICED

		Existing mortgage balance					
	Rmb b	2017	2018	2019	2020	2021	2022
New increase mortgage for each year	2017	3,870.0	3,480.1	3,090.2	2,700.3	2,306.4	1,883.2
	2018		5,729.3	5,152.1	4,574.8	3,991.6	3,365.2
	2019			6,313.1	5,677.1	5,034.5	4,344.2
	2020				6,987.2	6,275.9	5,564.7
	2021					7,690.8	6,223.2
	2022						7,069.9
Total existing mortgage balance from 2017-2022							28,450.5
First-home mortgage balance							25,650.5
Weighted average spread (Average mortgage rate – National floor first-home mortgage rate)							60bp

Source: CBIRC, UOB Kay Hian

- **Banks' net profit may decease 1.2%/4.8% at the most in 2023/24 from the existing mortgage rate cut.** Nevertheless, it is important to note that the actual mortgage book that will undergo repricing and the extent of rate reduction may be smaller than what we initially anticipated, due to: a) banks have more bargaining powers in negotiations, and b) the average spread between the existing mortgage rate and Tier-1 cities' floor rate is lower due to the intense competition among banks for mortgage loans. Additionally, the banking sector might also see an easing in early repayment of mortgages, which will boost their interest revenue. To recap, banks' interest revenues in 1H23 were significantly impacted by the mortgage prepayment rush as reflected by the surge in the residential mortgage-backed securities (RMBS) prepayment rate index in 2Q23.

ESTIMATED IMPACTS OF EXISTING MORTGAGE RATE CUT ON CHINA BANKS

NII chg		Net Profit Forecast		NIM impact		Net Profit Impact	
2023F	2024F	2023F	2024F	2023F	2024F	2023F	2024F
-Rmb38.4b	-Rmb153.6b	Rmb2,418b	Rmb2,539b	-1.2bp	-4.9bp	-1.2%	-4.8%

Source: UOB Kay Hian

- **Deposit rate cuts gradually reduce banks' funding cost.** Assuming that the 1-year/2-year/3-year/5-year term fixed deposits make up 25%/25%/15%/10% of banks' total time deposit, banks could potentially save up to Rmb68.4b/Rmb205.2b in interest expenses in 2023/24, which will then improve their NIM by 2.2bp/6.6bp as well as net profit by 2.1%/6.1%. Nonetheless, these are more ideal assumptions as it will take time for deposits to reprice at lower rates.

ESTIMATED IMPACTS OF DEPOSIT RATE CUT ON CHINA BANKS

Time Deposit	NII chg		NIM impact		Net Profit Impact	
2023F	2023F	2024F	2023F	2024F	2023F	2024F
Rmb14,925b	+Rmb68.4b	+Rmb205.2b	+2.2bp	+6.6bp	+2.1%	+6.1%

Source: UOB Kay Hian

- **NIM compression may ease in coming quarters.** All in all, the deposit rate cuts in this round have largely offset the negative impact of LPR cut and existing mortgage loans rate cut on banks' NIM and net profit in 2023/24. Meanwhile, the LPR and mortgage rate cut may help to spur consumer spending and investment, which will then boost effective retail loan demand for consumer loan, credit card loan and mortgage loans. In 1H23, NIM of all

SOE banks except Postal Savings Banks of China (PSBC) fell below the 1.8% red line, while other joint-stock banks also experienced double-digit NIM compression. However, we retain our stance that NIM compression will gradually alleviate in the upcoming quarters, and foresee some banks' NIM possibly reaching a plateau by the end of year, especially as more policies are being implemented progressively.

ESSENTIALS

- **We continue to maintain MARKET WEIGHT on the banking sector.** Moving forward, the banks' primary concerns continue to be asset quality and the NIM dilution. Nevertheless, we believe that Chinese banks have overcome their most challenging period, as we note that the downward pressure on larger banks's NIM is easing, and their NPL ratios have also remained largely stable in their latest interim results. On the policy front, we foresee one reserve requirement ratio (RRR) cut in 4Q in order to stimulate the effective credit demand.
- **China Merchants Bank (3968 HK/BUY/Target: HK$50.00) remains our top pick.** It is well-positioned to benefit from the recovery of its wealth management business, leveraging on its extensive retail customer base and growing asset under management (AUM) after China's efforts to revive the capital market. We also like the bank for its outstanding ROE performance (>17%) and solid capital buffer (CET1 ratio: 13.1%) which position it comfortably to expand its balance sheet and maintain its current dividend payout ratio.

RISKS

- Deterioration of asset quality from the contagion effect of property sector.
- Weaker-than-expected economic recovery in 2H23 from a lack of significant stimulus.

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