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SINGAPORE

Retail Market Monitor

Friday, 03 November 2023

MARKET NEWS

US stocks were higher on Thursday, as gains in the energy, real estate and financials sectors led shares higher. At the close of the NYSE, the DJIA gained 1.70% while the S&P 500 index rose 1.89%, and the NASDAQ Composite index advanced 1.78%. Advancing stocks outnumbered falling ones on the NYSE by 2,583 to 328 and 44 ended unchanged; on the Nasdaq Stock Exchange, 3,177 advanced and 982 declined, while 135 ended unchanged. (Source: WSJ, Bloomberg)

During the last trading session, the FSSTI index rose 5.72pt to 3,082.49. Among the top active stocks were Singapore Telecommunications (+1.7%), Thai Beverage (-0.9%), Yangzijiang Shipbuilding (+3.5%), Rex International (+0.6%) and Singapore Airlines (-0.5%). The FTSE ST Mid Cap index rose 1.6% while the FTSE ST Small Cap Index was up 2.5%. The broader market saw 383 gainers and 217 losers with total trading value of S$926.2m.

WHAT'S IN THE PACK

Singapore Company Results:

Singapore Post - 1HFY24: Soft results; upcoming inflection point. Upgrade to BUY.

(SPOST SP/BUY/S$0.46/Target: S$0.61)

SPOST reported higher 1HFY24 underlying PATMI of S$13.4m, below our expectation. The post and parcel segment continues to suffer from declining DPP volumes but…

Singapore Company Update:

Digital Core REIT - Rising from the ashes.

(DCREIT SP/BUY/US$0.55/Target: US$0.69)

DCREIT's second-largest tenant Cyxtera is on the cusp of emerging from chapter 11 bankruptcy restructuring. The series of six agreements reduces exposure to Cyxtera/Brookfield from 22% to 5%...

Singapore Technical Analysis:

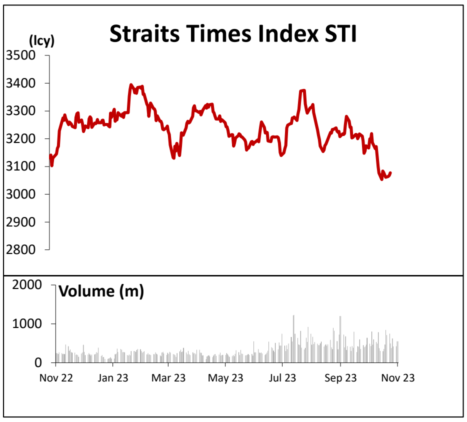
Yangzijiang Shipbuilding (YZJSGD SP) - Trading BUY

Price rebounded after forming a bottom at S$1.37. There is divergence warning given by the RSI that hints at a possible reversal. The RSI is rising from the oversold zone…

Propnex Ltd (PROP SP) - Trading BUY

Price rebounded after forming a bottom at S$0.785. It broke and closed above the middle Bollinger band, aka the 20-day moving average. The RSI is rising from the oversold region…

PRICE CHART



KEY INDICES

	Prev Close	1M %	YTD %
DJIA	33839.1	1.2	2.1
S&P 500	4317.8	0.7	12.5
FTSE 100	7446.5	(0.9)	(0.1)
AS30	7095.0	(0.6)	(1.8)
CSI 300	3554.2	(3.7)	(8.2)
FSSTI	3082.5	(3.4)	(5.2)
HSCEI	5911.1	(0.6)	(11.8)
HSI	17230.6	(0.6)	(12.9)
JCI	6751.4	(2.7)	(1.4)
KLCI	1439.8	1.4	(3.7)
KOSPI	2343.1	(4.9)	4.8
Nikkei 225	31949.9	2.3	22.4
SET	1404.0	(3.0)	(15.9)
TWSE	16397.0	(0.3)	16.0
BDI	1385	(22.2)	(8.6)
CPO (RM/mt)	3606	(2.2)	(10.9)
Brent Crude (US$/bbl)	87	(4.3)	1.1

Source: Bloomberg

TOP TRADING TURNOVER

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
DBS Group Holdings	32.66	(1.1)	90.6
United Overseas Bank	26.93	(0.8)	83.4
Oversea-Chinese Banking Corp	12.70	(0.2)	51.6
Singapore Telecommunications	2.43	1.7	37.0
CapitaLand Ascendas Reit	2.67	2.7	34.4

TOP GAINERS

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
Digital Core Reit Management	0.55	10.0	2.0
CapitaLand India Trust	1.02	6.8	4.4
Propnex	0.84	5.0	0.3
Cromwell Reit Eur	1.17	4.5	0.6
Starhill Global Reit	0.47	4.4	0.9

TOP LOSERS

Company	Price (S$)	Chg (%)	5-day ADT (S$m)
Bumitama Agri	0.57	(1.7)	0.2
Sembcorp Industries	4.72	(1.5)	18.1
DBS Group Holdings	32.66	(1.1)	90.6
iFAST Corp	6.73	(1.0)	9.5
Olam Group	1.03	(1.0)	3.7

**ADT: Average daily turnover*

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TRADERS' CORNER

Yangzijiang Shipbuilding (YZJSGD SP)

Trading Buy Range: S$1.44-1.45

Last price: S$1.49

Target price: S$1.62

Protective stop: S$1.40

Price rebounded after forming a bottom at S$1.37. There is divergence warning given by the RSI that hints at a possible reversal. The RSI is rising from the oversold zone. We are likely to see price penetrating its recent price high to move higher.

The potential upside target is S$1.62. Stop-loss could be placed at S$1.40.

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$1.88.

Propnex Ltd (PROP SP)

Trading Buy Range: S$0.810-0.815

Last price: S$0.840

Target price: S$0.935

Protective stop: S$0.775

Price rebounded after forming a bottom at S$0.785. It broke and closed above the middle Bollinger band, aka the 20-day moving average. The RSI is rising from the oversold region. These could increase chances of the stock price moving higher.

The potential upside target is S$0.935. Stop-loss could be placed at S$0.775.

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...

Singapore Post (SPOST SP)

1HFY24: Soft Results; Upcoming Inflection Point; Upgrade to BUY

SPOST reported higher 1HFY24 underlying PATMI of S$13.4m, below our expectation. The post and parcel segment continues to suffer from declining DPP volumes but this was offset by stronger contributions from the IPP segment. Despite strong organic growth in Australia, the logistics segment was dragged by weaker overseas contributions while the property segment remained stable. With an expected inflection point in 2HFY24, we upgrade to BUY with a higher target price of S$0.61.

1HFY24 RESULTS

Year to 31 Mar (S$m)	1HFY24	yoy % chg	hoh % chg	Remarks
Revenue*	827.3	(13.7)	(9.4)	Weaker overseas contributions.
- Postal	*246.1*	*(7.1)*	*(5.2)*	Lower IPP and DPP revenue.
- Logistics	*566.3*	*(16.8)*	*(11.7)*	Normalisation of sea freight rates.
- Property	*38.0*	*(2.9)*	*1.1*	
Operating Profit	31.4	(24.0)	(39.4)	
- Postal	*(10.0)*	*(22.5)*	*n.m*	Higher IPP profit, offset by wider DPP losses.
- Logistics	*33.6*	*(19.2)*	*(22.2)*	Supported by organic growth from Australian businesses.
- Property	*21.4*	*13.8*	*0.5*	
Operating Profit Margin (%)	3.8	(0.5ppt)	(1.9ppt)	
- Postal	*n.m*	*n.m*	*n.m*	
- Logistics	*5.9*	*(0.2ppt)*	*(0.8ppt)*	
- Property	*56.3*	*8.2ppt*	*(0.3ppt)*	
Group Expenses	797.4	13.4	7.5	Lower volume-related expenses.
Core PATMI	13.4	1.9	(26.9)	
Core PATMI Margin (%)	1.6	0.2ppt	(0.4ppt)	

*Source: SPOST, UOB Kay Hian *Including Inter-segment eliminations.*

RESULTS

- **Soft results; below expectations.** For 1HFY24, Singapore Post (SPOST) posted lower revenue of S$827.3m (-13.7% yoy), forming 47.4% of our full-year forecast and in line with expectations. The lower revenue growth was largely due to weaker overseas contributions (around S$50m) and the normalisation of freight forwarding revenue (around S$100m) from Famous Holdings. Despite growing slightly by 1.9% yoy, core PATMI (excluding exceptional items) formed 24.6% of our full-year forecast, below our expectation. The miss was due to higher-than-estimated operating expenses, with 1HFY24 operating margins falling by 0.5ppt yoy. On a constant currency basis, 1HFY24 revenue and core PATMI would have formed 50.2% and 37.4% of our full-year estimates, closer to our forecasts. SPOST declared a similar interim dividend of 0.18 S cents (1HFY23: 0.18 S cents), implying a 30% 1HFY24 core PATMI payout ratio. Management noted that the group's strategic review is at its final stages and would likely be completed by end-FY24.

KEY FINANCIALS

Year to 31 Mar (S$m)	2022	2023	2024F	2025F	2026F
Net turnover	1,666	1,872	1,781	2,052	2,148
EBITDA	182	172	172	213	244
Operating profit	105	89	76	129	162
Net profit (rep./act.)	83	25	41	77	102
Net profit (adj.)	88	32	41	77	102
EPS (S$ cent)	3.9	1.4	1.8	3.4	4.5
PE (x)	11.8	32.1	25.5	13.5	10.1
P/B (x)	0.8	0.9	0.9	0.9	0.9
EV/EBITDA (x)	6.4	6.7	6.7	5.4	4.7
Dividend yield (%)	3.9	1.3	2.2	3.0	3.9
Net margin (%)	5.0	1.3	2.3	3.8	4.8
Net debt/(cash) to equity (%)	18.1	9.3	15.7	10.8	5.2
Interest cover (x)	27.8	7.6	25.3	26.8	76.5
ROE (%)	5.7	1.8	3.0	5.6	7.3
Consensus net profit	-	-	49	80	94
UOBKH/Consensus (x)	-	-	0.83	0.97	1.09

Source: SPOST, Bloomberg, UOB Kay Hian

- **DPP: Upcoming inflection point.** Overall 1HFY24 post and parcel revenue declined 7.1% yoy while operating losses widened slightly by S$1.8m to S$10.0m, dragged by higher losses from the domestic post and parcel (DPP) segment but offset by increased international post & parcel (IPP) contributions. 1HFY24 DPP revenue softened slightly by 4.1% yoy as letter and mail volumes continue to decline. However, with the higher domestic postage rates already in effect since early-2HFY24, management noted that profitability from the DPP segment is expected to improve sequentially in 2HFY24. In our view, we reckon that the DPP segment has reached an inflection point. Based on our estimates, we expect the DPP segment to post an operating profit of S$8m-10m in 2HFY24, compared with an operating loss of S$20m-25m in 1HFY24.

- **IPP: Profitable and growing.** Despite 1HFY24 IPP revenue falling 9.3% yoy, management noted that the segment posted higher margins and profitability, driven by stable outbound e-commerce volumes, 42% lower yoy conveyance costs and increased contributions from its higher-margin international cross-border commercial solutions. As a recap, SPOST re-engineered its IPP operating business model from a single transhipment hub to a multimodal network, providing international commercial cross-border solutions domestically to IPP customers in key markets such as the UK, China and and Australia. This led to a 59% yoy increase in commercial revenue for 1HFY24 which we opine helped boost margins despite falling revenue. Based on our estimates, we reckon that the IPP segment posted operating profit of S$10m-15m in 1HFY24 and is expected to grow moving forward.

- **Logistics (Famous Holdings & others): Fall in sea freight rates...** Overall logistics revenue (-16.8% yoy) and operating profit (-19.2% yoy) fell in 1HFY24, dragged by a strong Singapore dollar and the normalisation of sea freight revenue from Famous Holdings (-42.1% yoy, about S$100m drop). Similar to 1QFY24, management noted that Famous Holdings was still profitable in 1HFY24 and operating profit has not dropped to pre-pandemic levels yet. However, despite strong freight forwarding demand, we reckon that there may be potential revenue downside in 2HFY24, given falling sea freight rates.

- **Logistics (Australia, CouriersPlease and FMH): … supported by robust growth Down Under.** On a constant currency basis, Australian revenue (+6% yoy) and operating profit (+11% yoy) grew in 1HFY24, driven by stronger organic volume growth and customer wins. SPOST also announced the acquisition of Border Express (BEX), the sixth largest transport and distribution logistics company in Australia. With its existing customer base and infrastructure, BEX is expected to help cement FMH's leading 4PL position in Australia and scale its capabilities further. Expected to be earnings accretive, we estimate that this acquisition would boost our previous FY25 net profit estimate of S$85m significantly by 15-20%. Pending approval, the acquisition is expected to be completed by earliest 3QFY24/4QFY24. Moving forward, we expect additional acquisitions in the future as SPOST strives to gain further market share in Australia.

- **Property: Near full capacity.** 1HFY24 overall occupancy rates at SingPost Centre (SPC) increased to 99.5% (98.2% in 1QFY24). Although 1HFY24 property revenue fell slightly by 2.9% yoy, operating profit surged 14.0% yoy from positive rental reversions.

EARNINGS REVISION/RISK

- **We lower our FY24-26 PATMI forecasts,** on the back of lower overall operating margin assumptions, weaker overseas contributions while adding the BEX acquisition into our forecasts. We now forecast FY24-26 PATMI at S$40.7m (S$54.5m previously), S$77.1m (S$85.1m previously) and S$102.4m (S$104.9m previously) respectively.

VALUATION/RECOMMENDATION

- **We upgrade to BUY (HOLD previously) with an SOTP-based target price of S$0.61 (S$0.515 previously).** We have switched from a PE valuation to an SOTP valuation to better reflect the value of each of SPOST's businesses. In our view, a partial divestment of the SPC is likely from the conclusion of SPOST's group strategic review.

SHARE PRICE CATALYST

- Better-than-expected IPP volumes. Lower-than-expected decline in domestic postal.

FROM THE REGIONAL MORNING NOTES...

Digital Core REIT (DCREIT SP)

Rising From The Ashes

DCREIT's second-largest tenant Cyxtera is on the cusp of emerging from chapter 11 bankruptcy restructuring. The series of six agreements reduces exposure to Cyxtera/Brookfield from 22% to 5% while enhancing exposure to investment-grade tenants from 77% to 85%. Management expects the agreements to be neutral on pro forma 2022 DPU. A major risk factor was removed. DCREIT provides a distribution yield of 6.4% for 2024 (KDCREIT: 5.7% and MINT: 6.4%). Maintain BUY. Target price: US$0.69.

WHAT'S NEW

- **Cyxtera on the cusp of emerging from chapter 11 bankruptcy.** Brookfield Infrastructure Partners has entered an agreement with Cyxtera to acquire all of Cyxtera's assets for US$775m. Brookfield will also purchase seven data centres from Cyxtera's landlords. The asset purchase agreement has been filed with the Bankruptcy Court for the District of New Jersey. The hearing to approve Cyxtera's Chapter 11 plan and the transaction with Brookfield is scheduled on 16 Nov 23. Brookfield is likely to merge Cyxtera with its colocation provider Evoque.
- **Resolving bankruptcy of Cyxtera.** Digital Core REIT (DCREIT) has entered into a series of six agreements to resolve the bankruptcy of its second-largest tenant Cyxtera, which accounted for 22% of its total annualised rent:
  - a) DCREIT will divest its 90% stake in two Silicon Valley data centres, 2401 Walsh Avenue and 2403 Walsh Avenue, to Brookfield for US$160m, which is in line with current book value. The transaction represents a cap rate of 4.4%.
  - b) The existing lease agreement for 1500 Space Park, the third Silicon Valley data centre, is assigned to Brookfield with no change to terms, conditions and rental rate.
  - c) The lease expiration for two Los Angeles data centres, 200 North Nash Street in El Segundo and 3015 Winona Avenue in Burbank, is accelerated by about 10 years from Feb 33 and Jan 35 respectively to Sep 24.
  - d) DCREIT has signed a letter of Intent to acquire an additional 20% interest in Wilhelm-Fay Straße 15 and 24, a fully-fitted freehold data centre in Frankfurt, from Digital Realty for €94m or US$99, thereby increasing its stake to 45%. The transaction is funded by proceeds from the sale of two Silicon Valley data centres.
  - e) DCREIT will pay US$2.5m to terminate Cyxtera's lease agreement at Wilhelm-Fay Straße 24, which is 1.5MW or 4% of capacity for the Frankfurt data centre.
  - f) DCREIT has completed the acquisition of a 10% interest in a freehold data centre located in Osaka from Mitsubishi Corporation for ¥7.725b or US$51.5m on 1 Nov 23. The transaction is funded by three-year JPY term loan at all-in cost of 1.3%.
- The acquisition of a 20% stake in a Frankfurt data centre is subject to unitholders' approval during EGM and is expected to close in 1Q24.

KEY FINANCIALS

Year to 31 Dec (US$m)	2021	2022	2023F	2024F	2025F
Net turnover	n.a.	115	104	82	74
EBITDA	n.a.	72	67	51	46
Operating profit	n.a.	72	67	51	46
Net profit (rep./act.)	n.a.	13	(75)	32	27
Net profit (adj.)	n.a.	42	38	32	27
EPU (US$ cent)	n.a.	3.7	3.4	2.8	2.3
DPU (US$ cent)	n.a.	4.0	3.7	3.5	3.2
PE (x)	n.a.	14.7	16.4	19.7	23.5
P/B (x)	n.a.	0.7	0.8	0.8	0.8
DPU Yld (%)	n.a.	7.2	6.7	6.3	5.8
Net margin (%)	n.a.	11.7	(71.9)	39.2	36.6
Net debt/(cash) to equity (%)	n.a.	50.3	62.5	66.9	70.7
Interest cover (x)	n.a.	6.7	2.7	2.0	1.7
ROE (%)	n.a.	n.a.	n.a.	4.0	3.5
Consensus DPU (US$ cent)	n.a.	n.a.	3.7	3.7	3.7
UOBKH/Consensus (x)	-	-	0.99	0.93	0.86

Source: Digital Core REIT, Bloomberg, UOB Kay Hian

STOCK IMPACT

- **Major overhang and risk factor removed.** DCREIT is about to resolve its exposure to the second largest tenant Cyxtera, which filed for chapter 11 bankruptcy protection on 4 Jun 23. The series of six agreements have the following positive attributes:

  a) Exposure to Cyxtera/Brookfield is expected to be reduced from 22% to 5% of annualised rent.

  b) Exposure to investment-grade tenants is enhanced from 77% to 85%.

  c) Exposure to hyperscale cloud providers is enhanced from 61% to 70%.

  d) Rental revenue derived from outside North America increases from 14% to 28%, which enhances geographical diversification.

- **Management expects neutral impact on pro forma 2022 DPU.** On an aggregate basis, the series of six agreements is expected to have an overall neutral impact on pro forma 2022 DPU. The amendments to leases for two data centres in Los Angeles and one data centre in Frankfurt have a negative impact of -6%, which is offset by positive impact from: a) acquisition of 20% stake in Frankfurt data centre and divestment of two Silicon Valley data centres (+3%), and b) acquisition of Osaka data centre (+3%). According to management, the cap rates for acquisition of Frankfurt and Osaka data centres are 5.6% and 5.0% respectively, which is higher than the exit cap rate of 4.4% for the two Silicon Valley data centres. Aggregate leverage remains static at 34%.

- **Backfilling of vacant space at the two Los Angeles data centres.** The two Los Angeles data centres have low end-customer occupancy of 57%, which is close to breakeven levels. They accounted for 7.7% of portfolio valuation and 6.4% of annualised rent. They have to be backfilled after their leases expire in Sep 24. DCREIT intends to retain Cyxtera's colocation customers by establishing a direct relationship with them.

EARNINGS REVISION/RISK

- We cut our DPU forecasts by 3% for 2024 and 12% for 2025, assuming: a) DCREIT backfills half of the data centre spaces at the two Los Angeles data centres, and b) the Osaka data centre is fully funded by JPY term loans, which lowers average cost of debt from 5.1% to 4.7%.

VALUATION/RECOMMENDATION

- **Maintain BUY.** Our target price of US$0.69 is based on DDM (cost of equity: 7.0% (previous: 7.25%), terminal growth: 2.5% (previous: 2.2%)).

- **Pure play on data centre.** DCREIT provides a distribution yield of 6.4% for 2024F (KDCREIT: 5.7% and MINT: 6.4%).

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 – DCREIT

	3Q22	4Q22	1Q23	2Q23	3Q23	yoy % Chg	qoq % Chg*
DPU (US cents)	n.a.	1.92	n.a.	1.92	n.a.	n.a.	n.a.
Occupancy	100.0%	98.0%	97.0%	97.0%	97.0%	-3ppt	0ppt
Aggregate Leverage	26.2%	34.0%	34.4%	34.2%	34.4%	8.2ppt	0.2ppt
Average Cost of Debt	3.1%	3.9%	4.1%	4.7%	5.1%	2ppt	0.4ppt
WALE by Annualised Rents (years)	5.0	4.5	4.2	3.9	3.6	-1.4yrs	-0.3yrs
Weighted Average Debt Maturity (years)	4.2	3.6	3.7	3.4	3.2	-1yrs	-0.2yrs
% of Borrowings in Fixed Rates	50%	75%	74%	72%	72%	22ppt	0ppt

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

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