

MARKET PULSE

**Morning Call
25 Sep 2017**
Key Singapore Indices

	Close	Chg	% Chg
STI	3,220.3	6.4	0.2
Finance	925.3	1.9	0.2
Property	826.9	-2.1	-0.3
Electronics	242.6	unch	unch
Vol (m)	1,404.7	-385.4	-21.5
Val (S\$m)	987.4	-104.4	-9.6

World Indices

	Close	Chg	% Chg
Dow Jones	22,349.6	-9.6	0.0
Nasdaq	6,426.9	4.2	0.1
S&P500	2,502.2	1.6	0.1
FTSE	7,310.6	46.7	0.6
KLCI	1,771.0	-2.5	-0.1
Hang Seng	27,880.5	-229.8	-0.8
Nikkei	20,296.5	-51.0	-0.3
SET	1,659.1	-11.4	-0.7
KOSPI	2,388.7	-17.8	-0.7
TWSE	10,449.7	-128.8	-1.2

Market Statistics (SG)

STI 52-week range	2,761	3,355
No. of gainers		167
No. of losers		227
No. of unchanged		156

Economic Statistics

S\$/US\$	1.346	0.0
Yen/US\$	111.990	0.5
3-mth S\$ SIBOR	1.123	0.0
3-mth US\$ LIBOR	1.329	0.0
Crude futures (US\$)	50.660	0.1

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Key Idea

Yangzijiang Shipbuilding: Significant overseas M&A coming up?

After Yangzijiang Shipbuilding's (YZJ) share placement announcement on 31 Aug 2017, its share price has dropped 13% from a high of S\$1.625 on 30 Aug to S\$1.41 as of yesterday's close. The group is financially robust and has significant cash, as such there have been questions on the need to raise funds, unless the group is preparing to undertake significant M&A ahead. Another possible explanation could be that the placement adds to cash at the listed platform level, as a significant portion of cash may be with the subsidiaries in China, while increased scrutiny over capital movements after certain high-profile incidents in China have led to more capital controls. Hence the placement would allow YZJ to undertake more significant overseas acquisitions. Whichever the case, time will tell with regards to the use of proceeds. As for the stock, we believe that a fair amount of new orders expectation has been baked into the share price, as mentioned in our earlier report. We tweak our estimates to account for the placement and adjust our P/B for the shipbuilding segment from 1.3x to 1.2x, in line with the decline in industry average, leading to a fair value estimate of S\$1.48. Maintain **HOLD**.

More reports

- Frasers Commercial Trust: HPE vacates sizeable space at ATP

News Headlines

- CapitaLand Commercial Trust has been downgraded by S&P Global Ratings to 'BBB+' as leverage is likely to increase following its portfolio enhancement.
- BBR Holdings (S) Ltd has completed the proposed acquisition of Goh & Goh Building, a 4-storey mixed-used development located at Nos. 110 to 112 Upper Bukit Timah Road.
- Hatten Land Limited has entered into an agreement to receive a convertible loan of an aggregate amount of US\$20m.
- Vicplas International Ltd's FY17 revenue fell 16.3% to S\$63.7m while PATMI dropped 40.4% to S\$3.2m.

Sources: MasNet, Bloomberg, Business Times, Straits Times and other media



Yangzijiang Shipbuilding: Significant overseas M&A coming up?

- **Down 13% post placement announcement**
- **Await news of acquisitions**
- **Maintain HOLD**

Price eases after placement announcement

After Yangzijiang Shipbuilding's (YZJ) share placement announcement on 31 Aug 2017, its share price has dropped 13% from a high of S\$1.625 on 30 Aug to S\$1.41 as of yesterday's close. Recall that 137m new shares (represents 3.6% of existing share capital) will be placed out at S\$1.53/share to raise net proceeds of about S\$209m. Up to half of this will be used to fund new investments and business expansion through acquisitions, JVs and/or strategic alliances, with the remainder meant for working capital and general corporate purposes, such as repayment of bank borrowings.

Financially robust

As of 1H17, the net-cash group had RMB6.3b in cash and cash equivalents (excludes RMB335m restricted cash), RMB6.0b of current held-to-maturity financial assets, RMB1.1b of current available-for-sale financial assets and RMB724m of financial assets at fair value through profit or loss. Under non-current assets, there were RMB4.6b of held-to-maturity financial assets and RMB200m of available-for-sale financial assets. This is against current borrowings of RMB5.2b and non-current borrowings of RMB801m.

Awaiting news of overseas acquisitions

With these significant resources, there have been questions on the need to raise funds, unless the group is preparing to undertake significant M&A ahead. Another possible explanation could be that the placement adds to cash at the listed platform level, as a significant portion of cash may be with the subsidiaries in China, while increased scrutiny over capital movements after certain high-profile incidents in China have led to more capital controls. Hence the placement would allow YZJ to undertake more significant overseas acquisitions. Whichever the case, time will tell with regards to the use of the proceeds. As for the stock, we believe that a fair amount of new orders expectation has been baked into the share price, as mentioned in our earlier report. We tweak our estimates to account for the placement and adjust our P/B for the shipbuilding segment from 1.3x to 1.2x, in line with the decline in industry average, leading to a fair value estimate of S\$1.48. Maintain **HOLD**.
(Low Pei Han)

Frasers Commercial Trust: HPE vacates sizeable space at ATP

Frasers Commercial Trust's (FCOT) announced that Hewlett-Packard Enterprise Singapore Pte Ltd (HPE) intends to vacate 178,843 sqft out of the 191,846 sqft of space it currently occupies at Alexandra Technopark (ATP) upon the expiration of relevant leases on 30 September and 30 November 2017. The vacated space by HPE constitutes ~17.1% of the total NLA of ATP and 6.6% of FCOT's total gross rental income as at 30 June 2017. We note that the Manager has already secured commitment by a tenant to backfill ~24k sqft of the vacated space, and will continue efforts to normalize occupancy at ATP. This development has been largely factored into our existing forecast as we assumed a conservative outcome arising from HPE's lease expiries. Separately, we note that the Manager is still in discussions with Hewlett-Packard Singapore Pte Ltd (HPS), which currently occupies an even larger space of ~304,920 sqft at ATP under leases expiring on 30 November 2017. We maintain our **HOLD** rating with an unchanged fair value of S\$1.42.

(Joseph Ng)

Calendar of key events

25-Sep-17	26-Sep-17	27-Sep-17	28-Sep-17	29-Sep-17
<i>SG Aug CPI</i>	<i>SG Aug Industrial Production</i>	<i>US Aug Durable Goods Orders</i>	<i>US GDP 2Q17</i>	
	<i>US Aug New Home Sales</i>		<i>US Aug Wholesale Inventories</i>	
02-Oct-17	03-Oct-17	04-Oct-17	05-Oct-17	06-Oct-17
<i>US Sep Markit US Manufacturing PMI</i>			<i>US Aug Trade Balance</i>	<i>SPH REIT 4Q17</i>
<i>US Aug Construction Spending</i>			<i>US Aug Durable Goods Orders</i>	<i>US Sep Change in Nonfarm Payrolls</i>
				<i>US Sep Unemployment Rate</i>
				<i>US Aug Wholesale Inventories</i>
09-Oct-17	10-Oct-17	11-Oct-17	12-Oct-17	13-Oct-17
<i>SG 3Q GDP (9 - 13 Oct)</i>	<i>CN Money Supply (10 - 15 Oct)</i>		<i>Soilbuild REIT 3Q17</i>	<i>SPH 4Q17</i>
			<i>SG Aug Retail Sales</i>	<i>US Sep CPI</i>
			<i>US Sep PPI Final Demand</i>	<i>US Sep Retail Sales Advance</i>
16-Oct-17	17-Oct-17	18-Oct-17	19-Oct-17	20-Oct-17
<i>CN Sep CPI</i>	<i>Keppel DC REIT 3Q17</i>	<i>US Sep Housing Starts</i>	<i>CapitaLand Commercial Trust 3Q17</i>	<i>ART / CACHE / CT 3Q17</i>
	<i>Keppel REIT 3Q17</i>		<i>First Real Estate Investment Trust 3Q17</i>	<i>AREIT 2Q18</i>
	<i>M1 3Q17</i>		<i>SGX 1Q18</i>	<i>FCT / FCOT 4Q17</i>
	<i>SG Sep Non-oil Domestic Exports</i>		<i>CN 3Q GDP</i>	<i>KEP / SUN 3Q17</i>
	<i>US Sep Industrial Production</i>			<i>US Sep Existing Home Sales</i>
23-Oct-17	24-Oct-17	25-Oct-17	26-Oct-17	27-Oct-17
<i>SG Sep CPI</i>	<i>HPHT 3Q17</i>	<i>CRCT 3Q17</i>	<i>SSG 3Q17</i>	<i>CDREIT / OCBC / SCI / UOB 3Q17</i>
	<i>MLT 2Q18</i>	<i>MINT 2Q18</i>	<i>SG Sep Industrial Production</i>	<i>EZRA / FHT 4Q17</i>
	<i>RFMD 3Q17</i>	<i>SMM 3Q17</i>		<i>MAGIC 2Q18</i>
		<i>US Sep Durable Goods Orders</i>		<i>SGREIT / WINGT 1Q18</i>
		<i>US Sep New Home Sales</i>		<i>US 3Q GDP</i>

Notes: Sourced from Bloomberg
All US Tech results dates have been adjusted to Singapore dates.
US Initial jobless claims are released every Friday.
MBA mortgage applications are released every Wednesday.

SHAREHOLDING DECLARATION:

For shareholding disclosure on individual companies, please refer to the latest reports of these companies.

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- OIR's technical comments and recommendations are short-term and trading oriented.
- OIR's fundamental views and ratings (Buy, Hold, Sell) are medium-term calls within a 12-month investment horizon.
- As a guide, OIR's BUY rating indicates a total expected return in excess of 10% based on the current price; a HOLD rating indicates total expected returns within +10% and -5%; a SELL rating indicates total expected returns less than -5%.
- For companies with market capitalisation of S\$150m and below, OIR's BUY rating indicates a total expected return in excess of 30%; a HOLD rating indicates total expected returns within a +/-30% range; a SELL rating indicates total expected returns less than -30%.

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