

Investment Outlook 2019

With 2018 drawing to a close, analysts are beginning to cast their gaze towards 2019. Here are outlooks for the year ahead that were published on Thursday.

OCBC: Bargain hunting in a pessimistic Singapore stock market

Straits Times Index (STI)

- Core STI companies were largely unscathed through previous market crises, and should be well-positioned to ride out any potential economic slowdown with healthy balance sheets and reasonable gearing. Dividend payouts are also consistent and healthy.
- Valuations are cheap, with the index trading more than one standard deviation below historical price-earnings and price-to-book multiples.
- Base-case expectation for STI to trade around 3,631.76, a 17 per cent upside from current levels. In the worst-case scenario, STI expected to slide 8 per cent to 2,858.94; in the best-case scenario, STI could gain to 4,125.22.

Banks

- OCBC remains “overweight” on the banking sector, highlighting it as a top pick for 2019.
- Stock picks: DBS Group Holdings, United Overseas Bank
- General market sentiment to remain weak due to unclear impact from ongoing trade tensions.
- Market is expecting the three banks to deliver earnings growth of 20 per cent in FY18 and 9 per cent in FY19.

S-REITS

- OCBC has a “neutral” outlook with bias toward the upside, citing reasonable valuations.
- Stock picks: Mapletree North Asia Commercial Trust, Keppel DC REIT, Frasers Centrepoint Trust and Frasers Logistics & Industrial Trust
- Expecting positive distribution per unit (DPU) growth of 0.3 per cent for the current financial year.
- Retail Reits are preferred, followed by industrial, hospitality and office.

Hospitality

- OCBC upgraded the sector to “overweight” from “neutral”.
- Stock picks: OUE Hospitality Trust, Far East Hospitality Trust
- Expecting flat revenue per available room growth for Singapore, but stronger pick-up in the fourth quarter of 2018 and in 2019.

Industrials

- Stock picks: ST Engineering, SIA, SATS
- Expecting a continued gradual recovery for offshore oil and gas, with US\$65 to US\$70 per barrel oil prices in Q4 2019.

Telcos

- Stock Picks: Singtel, NetLink NBN Trust
- Local post-paid average revenue per user continues to decline, but may have bottomed out.
- Over-the-top streaming services such as Netflix continue to fight for customer share.
- Bright spot remains in enterprise segment, with Starhub and M1 gaining traction on the back of growing demand for managed services/ICT solutions.

UBS: Look domestically & defensively as global growth & trade slow

Singapore Real Estate

- Dampeners from rising interest rates and tight government policy.
- However, a robust employment outlook and better affordability provide fundamental support. Unemployment rate likely to remain low at around 2.5 per cent in the next two years.
- Price-to-income ratio has improved from 7.3 times in 2010 to 4.8 times in 2017.

Asia Macro

- Slowing exports may cut Asian GDP growth by 0.4 percentage points to 5.8 per cent in 2019 while higher interest rates pinch global demand.
- China will likely ease policy further in the first half of 2019 as policymakers seek to support demand, while central banks in the rest of Asia should stop tightening.

Equities Investment

- Select financials and IT names for strong diversification benefits between growth and value, and equities with high domestic exposure amid the China-US trade tensions.
- Beneficiaries of Chinese stimulus, like materials and infrastructure names, are good picks, given accelerating infrastructure spending.
- Vietnam for its structural consumption growth story and potential to receive manufacturing re-routing from China.
- High-yielding dividend stocks with sustainable payouts, like Singapore and Hong Kong Reits, for their defensive traits and attractive yields.

Bond Investments

- Select BBB-rated bonds, as spreads between BBB and single-A bonds have widened to 100 basis points from a trough of 30bps.
- Bank Tier 2 debt, which offers a 50-to-100 bps spread pick-up on average to senior peers.
- Perpetuals with high step-ups, to take advantage of underperformance due to higher rates and the lower extension risk.
- Shorter-dated high-yield China property, as they now offer high-single to double digit yields.
- Select investment grade and high-yield state-owned enterprises in Asia on the back of strong government support.

Currency Investments

- Long on Singapore dollar, short on Taiwan dollar as the Monetary Authority of Singapore is more hawkish than Taiwan’s central bank.
- Long US dollar, short Korean won with the strengthening greenback and Korea’s exposure to slowing exports.
- Slowing Chinese economic growth and a disappearing current account surplus should weaken the Chinese yuan (CNY) over 12 months.