10 STOCKS THAT COULD SURPRISE IN 2019

THE years-long bull market finally fizzled in 2018, though not before the Straits Times Index briefly breached the 3,000-point psychological threshold.

Asian markets retreated amid geopolitical tensions, slower economic growth and a rising interest rate environment.

But when the going gets tough, the tough go bargain-hunting. Stock analysts are now advocating value over growth, leaning towards defensives, dividend plays and undervalued gems. Here are 10 counters that analysts say may still reward in an uncertain 2019.

BY SHARANYA PILLAI

Fu Yu Corp

Fu Yu Corp, a manufacturer of high-precision plastic parts and moulds, has attracted interest as a dividend play.

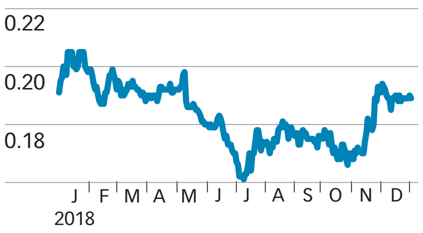
In November, UOB Kay Hian initiated coverage on the stock for its "high and sustainable" yield of 8.5 per cent for the financial year ended Dec 31, and said it expects this yield to hit 9 per cent in the coming year.

UOB Kay Hian thinks Fu Yu could be a takeover target, given its attractive valuation and diversified plants in Singapore, Malaysia and China.

RHB Research has named Fu Yu as its top pick for 2019 in the small and mid-cap manufacturing space. RHB head of small and mid caps Jarick Seet said Fu Yu could enjoy "continued revenue and margin expansion" with new projects in auto, consumer and medical space.

With more than 80 per cent of its revenues in US dollars, it will also gain from the strong greenback, he said.

Dec 31: **$0.19**



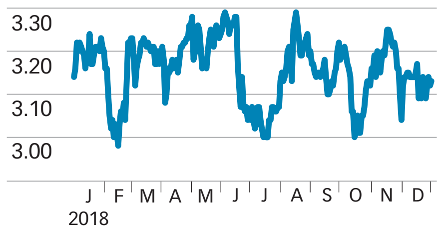
Wilmar International

Crude palm oil prices were sluggish in 2018, and the outlook remains uninspiring, said RHB, but integrated agribusiness Wilmar International could outperform its peers on "more favourable palm processing margins, strong biodiesel demand and continued growth in its consumer pack products".

Wilmar may also list its China operations on the A-share market. The prospect of listing its China business in Hong Kong was raised in 2009, but shelved because of market volatility.

In 2017, Wilmar had said in its first quarter results that it was looking at a possible separate listing. RHB believes that the spinoff could happen by end-2019 and could "unlock some latent value" in the stock and possibly lead to special dividends, it added.

Dec 31: **$3.12**



CapitaLand Mall Trust

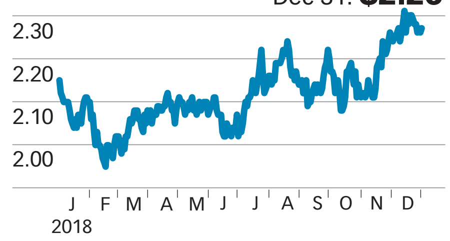
The market was abuzz last August with the announcement by CapitaLand Mall Trust (CMT) that it would acquire the remaining 70 per cent stake in Westgate mall (98 per cent committed occupancy as at end-July 2018) for S$789.6 million.

Another bright spot is the reopening of Funan mall, with the retail and office components to open in Q2 2019. The mall is branded as Singapore's first online-and-offline mall.

Full contributions from Westgate and the return of Funan will take CMT's distribution per unit on a "multi-year growth path", said DBS Group Research in a Dec 7 report. The research house believes that earnings growth will return to an "upward trajectory" of 3 to 4 per cent per annum.

While there are fears about a surge in new retail supply in 2019, DBS believes that CMT is shielded by its strong pre-commitments ahead of completion. Any further acquisitions by CMT could also be a positive catalyst.

Dec 31: **$2.26**



Sheng Siong Group

Local supermarket chain Sheng Siong Group rallied 15 per cent from the start of 2018 to Dec 28, and could continue to outperform the broader market, said some analysts.

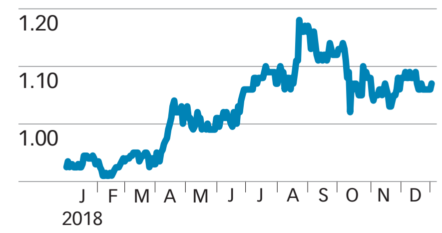
The company has been expanding its local footprint, having opened seven local stores last year, bringing its number of local outlets to 54.

RHB likes Sheng Siong for its defensive groceries business, which could be a safe haven in view of market uncertainties arising from US-China trade tensions.

The research house expects Sheng Siong to deliver earnings growth of at least 15 per cent this year, with contributions from the new stores and from gross margin expansion after the opening of the distribution centre extension.

The extension is expected to add another 20 per cent capacity to the existing centre, allowing Sheng Siong to improve its direct-purchase and bulk handling capabilities, RHB said in a Dec 14 report.

Dec 31: **$1.06**



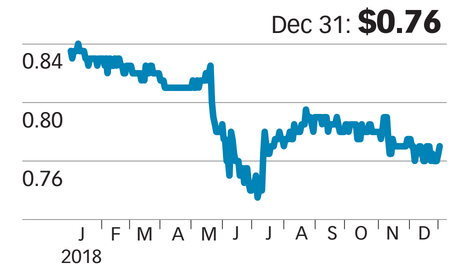
Netlink NBN Trust

Netlink NBN Trust has long been a favourite as a defensive play, with its recurring and predictable cash flows. The company designs, builds, owns and runs the fibre network infrastructure of Singapore's next-generation Nationwide Broadband Network. It had a 90 per cent share of the residential market, and 35 per cent of the non-residential market as at Sept 30.

A potential catalyst for Netlink would be StarHub's accelerated migration to fibre, said DBS in a Nov 21 report. The telco plans to migrate all its subscribers from co-axial cable to fibre by July 2019. Netlink could benefit from the migration: There were about 78,000 co-axial cable broadband subscribers as at H1 2018, and slightly more cable TV subscribers who will switch to fibre, said DBS.

Another catalyst for the stock could be an expansion of Singapore's Smart Nation initiative. Netlink has an attractive yield of 6.5 per cent, and appears to have healthy debt headroom to move into new initiatives, said DBS.

Dec 31: **$0.76**



UOL Group

UOL is starting 2019 with a new CEO, Liam Wee Sin, who was previously deputy CEO. His promotion was announced in September. Mr Liam takes over from Gwee Lian Kheng, who will retire in end-January this year.

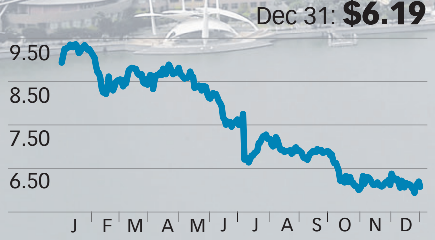
Despite the weaker property sentiment in Singapore, OCBC Investment Research said in a Dec 5 report that UOL Group has managed the risks well and "built a good track record of replenishing its land bank at reasonable costs".

UOL has an attractive investment properties portfolio, OCBC added, and its exposure to the hospitality segment will be a "key proxy" to expectations of recovery in RevPAR (Revenue Per Available Room) in the industry in 2019, the report said.

To build recurring income streams, UOL entered the Australian office market. The company acquired a Sydney office building with 100 per cent occupancy and the lease expiring in 2028.

As at Dec 4, UOL's share price was trading at a "steep" revalued net asset value discount of 51.3 per cent, making it time to "bottom fish", said OCBC. UOL had a gearing ratio of 28 per cent as at Sept 30.

Dec 31: **$6.19**



ST Engineering (STE)

This darling among defensive stocks had a robust order book of S$13.3 billion as at the end of September, and analysts believe that this pipeline of projects will give it good earnings visibility in the new year.

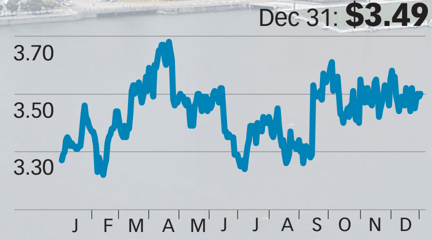
The aerospace segment made a significant recovery last year, securing S$590 million in contracts for the third quarter ended Sept 30, including a few multi-year deals for airframe, engine and component maintenance and engine-wash services.

Last September, ST Engineering signed a record US$630 million deal to purchase nacelle manufacturer MRA Systems from General Electric Co. ST Engineering's president of the aerospace segment Lim Serh Ghee said moving upstream into manufacturing nacelles (the outer casings housing aircraft engines) will let the company ride the growth in global aircraft fleets.

ST Engineering is also growing its electronics segment through smart-city contracts, DBS noted in a Nov 15 report.

For the third quarter ended Sept 30, ST Engineering secured S$435 million in new orders on smart-city related projects, in areas such as satellite communications and cybersecurity.

Dec 31: **$3.49**



Sembcorp Industries

While the offshore and marine (O&M) industry is still nursing wounds, Sembcorp Industries (SCI) is supported by its defensive utilities business, which accounted for 54.6 per cent of total turnover in the nine months ended Sept 30, 2018.

In a Nov 5 report, DBS said SCI has "long-term growth prospects" in its utilities arm, given its recent moves into key emerging markets such as India, Bangladesh, Vietnam and Myanmar.

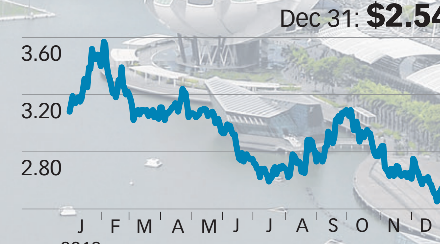
CGS-CIMB Research forecasts SCI's utilities earnings to grow 26 per cent year on year for the financial year ending Dec 31, 2019, possibly driven by the UK and India markets, the research house said in its 2019 outlook report in November.

Meanwhile, speculation swirls around a spinoff of SCI's O&M arm, Sembcorp Marine (SMM).

DBS says there may be a merger of the O&M arm of Keppel Corp and SMM, which could "re-rate SCI's undervalued utilities business that is overshadowed by the cyclical marine business".

CGS-CIMB added that the question of whether SCI keeps or divests SMM could be a stock catalyst.

Dec 31: **$2.54**



Singapore Telecommunications

Local telcos have had a rough year, and Singtel is no exception, having fallen 18 per cent in the year through to Dec 28. The sector gained a reprieve of sorts with the delay in TPG Telecom's commercial launch, but this may not last into the long term.

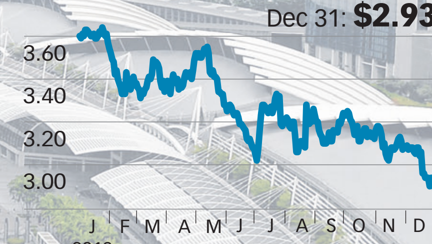
Singtel is RHB's preferred pick within the telecommunications segment, although RHB has a "neutral" call on the stock.

RHB's Dec 14 report said Singtel could benefit from the recovery in the enterprise segment. Amobee, Singtel's mobile advertising arm, is expected to be Ebitda-positive for FY2019.

A potential catalyst would be earnings recovery at its Indonesian associate Telkomsel and Thai associate Advanced Info Service; another possible catalyst would be savings in operational expenditure.

RHB forecasts Singtel's core earnings to grow at a compounded annual growth rate of 3.2 per cent from FY2019 to FY2021. It sees Singtel's risk-to-reward profile as "largely balanced".

Dec 31: **$2.93**



Oversea-Chinese Banking Corp

Local banking stocks are already attractive dividend plays, and some believe OCBC could be sweeter for yield hunters this year.

The bank could raise its dividend payout ratio towards mid-40 per cent, suggested UOB Kay Hian in a Jan 4 report. This would translate to a "compelling" dividend yield of 4.3 per cent for 2019.

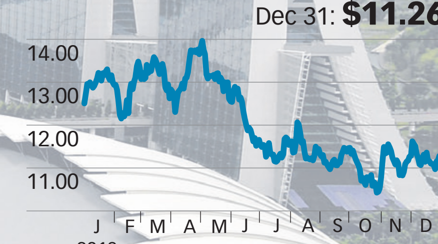
The research house also notes that OCBC plans to implement an internal ratings-based approach to calculate OCBC Wing Hang's risk weighted assets. The exercise could raise OCBC's overall common equity tier 1 capital adequacy ratio, strengthening its ability to pay dividends.

CGS-CIMB expects OCBC to enjoy continued improvements in Net Interest Margin (NIM), from the full impact of the repricing of its Singapore mortgages in the third quarter ended Sept 30, 2018.

OCBC Wing Hang's margins could also rise following its prime rate hike in September. The hike could benefit about half of OCBC's Hong Kong mortgages, CGS-CIMB says in its 2019 outlook report.

In its most recent results, OCBC registered a six basis point rise in NIM to 1.72 per cent.

Dec 31: **$11.26**



Source: Bloomberg Compiled by The Business Times BTGraphics