HD Capital: Tailwind from China

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Potential easing by PBOC boosts equity markets

The Straits Times Index closed at 3,304 on Nov 13, up 4.4% this year. This means the benchmark has underperformed the FTSEProperty Index, which has gained 5.4% so far this year, and the FTSE REIT Index, up 7.25% this year. Despite the spectre of rising interest rates next year, 10-year Singapore Government bond yields ended at 2.32% on Nov 13, down from 2.59% at the start of the year, giving real estate investment trusts something of a tailwind.

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Although the US economy is recovering, economies across Asia and Europe are slowing down. Conflicting signals are emerging from Europe, with European Central Bank president Mario Draghi's proposal for quantitative easing meeting resistance from German Chancellor Angela Merkel, who has advocated fiscal discipline. Economists are expecting easing in Asia, however, particularly in China, where growth is decelerating.

In October, China's domestic activity data came in weaker than consensus, according to Barclays. "It confirms our view of soft domestic demand and risks to growth remaining tilted to the downside," the report says. The big disappointment was industrial production growth, which slowed to 7.7% y-o-y, the second-lowest level in five years, Barclays points out.

Barclays forecasts GDP growth of 7% for 2015, with growth in 1Q2015 dropping to a seasonally adjusted annual rate of 6.1% q-o-q. "Our view has been that the property correction will continue into 2015, and we forecast a slowdown in property investment to 10%," the report states. As a result, Barclays expects two cuts in the benchmark interest rates, one in 4Q2014 and the other in 1Q2015. On the property front, the mortgage loan policy has been relaxed, giving home owners with a fully paid-up property the leeway to borrow at a loan-to-value of 70% as long as it is their only mortgage.

The easing may have buoyed the local market, and local property stocks gained ground on Nov 13, with shares in CapitaLand and City Developments rising 1.8% each to $3.21 and $9.53 respectively, whereas shares in Frasers Centrepoint rose 3.6% to $1.645. For the third quarter, CapitaLand announced a 12.2% y-o-y rise in Patmi (profit after tax and minority interest) to $130 million. City Development's profits were up 4.7% to $127.2 million, and Frasers Centrepoint announced a 31% decline in attributable profit to $500.7 million for FY2014 ended Sept 30.

The Australian reported that City Developments is believed to have called in investment bank Credit Suisse to advise on its interest in Leighton Properties. The sale of some of Leighton's properties is being marketed through Bank of America Merrill Lynch and they include commercial properties and residential developments that could reportedly be divested for A$500 million ($564.5 million). The value of Leighton's assets is A$7 billion.

According to the daily, City Developments has set up three new companies to manage its likely purchase of Leighton Properties. They are CDL Australia Holdings and CDL Pachigh Development, which could hold an interest in Leighton's Pacific Highway development in North Sydney. Leighton Properties' other projects include its Kings Square development in Perth, which it is jointly developing with Mirvac, as well as residential projects, the reports say.

Falling oil prices

The other big trend affecting the local market is the decline in the price of crude oil. North Sea Brent has fallen below US$80 per barrel, negatively affecting some stocks. Sembcorp Marine has lost a massive 43% this year, and Keppel Corp is down 13%. "A rebound above US$80 will trigger an upmove in Keppel," a dealer says.

CIMB has maintained a "buy" rating for Swissco Holdings. The offshore vessel and rig operator has been raising the quantity and quality of its fleet. Including the latest accommodation rig contract that it secured, it now has a fleet of nine rigs. Of these, two are 100%-owned and seven are in 50%-owned joint ventures. "We have factored in 12 rigs by FY2015, with a different permutation (four 100% and eight in JVs). We believe Swissco is on track to meet its target of 15 units by end-2015, likely with more new JV-owned rigs," the CIMB report says.

Swiber Holdings, another offshore logistics player, has been downgraded to a "sell" by OCBC Investment Research. The company reported a 60.9% y-o-y decline in revenue to US$107.3 million and a 97.8% fall in gross profit to just US$847,000 in 3QFY2014. Its nine-month gross profit accounted for only 38% of OCBC's full-year estimate. Swiber made a net loss of US$27.5 million in the quarter, reversing a net profit of US$7.7 million a year ago.

"With higher debt and a lower equity base, net gearing rose to 1.7 times in 3QFY2014 versus [a gearing] of one time in 3QFY2013. Along with weaker oil prices and the slow order win momentum, we believe players like Swiber with high overheads and operating on thin margins are more susceptible to any turn in sentiment," OCBC says.

Elsewhere, local taxi operator Trans-cab Holdings launched an IPO on Nov 12, for 168 million shares at 68 cents each. Of this, only 8.8 million will be allocated to retail investors. Its cornerstone investors are FIL Investment; Havenport Asset Management; Maxi-Harvest Group, managed by Prudential; Lion Global Investors; and JF Asset Management. The offer closes at noon on Nov 18.

What to look out for

Although most of the third-quarter results have been announced, Olam International announces its 1QFY2015 and Thai Beverage its 3QFY2014 results on Nov 14.

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