



Key Highlights

- **Economic shutdowns.** The closing of many economies worldwide has led to recessions globally. As a result, policies have reacted swiftly.
- **Fiscal and Monetary Policy.** These are likely to remain accommodative as governments and central banks continue to fight economic stagnation.
- **Vaccine.** As we anticipate a possible vaccine for Covid-19, focus on equities may shift to those perceived as recovery laggards
- **Strategy.** Some names to consider include **Honeywell (HON US), Booking Holdings (BKNG US), Cisco Systems (CSCO US), McDonald's (MCD US), Starbucks (SBUX US) and Nike Inc (NKE US).** Fixed Income: **Frasers Property Ltd SGD 4.15% Senior 2027** and **Blackrock Asian Tiger Bond Fund.**

Market review. Widespread shutdown has plunged the world into economic decline. However, the pandemic has also prompted fast, unprecedented global responses by governments and central banks. To date, such monetary expansion has helped drive higher stock valuations and lower bond yields.

Beyond that, the global economy is likely to struggle with structurally lower growth as a result of damage to household net worth, company balance sheets, and government finances. Many companies may struggle to survive and displaced workers may also find difficulty in returning to the workforce.

Liquidity. There remains an unprecedented amount of cash sitting in US money market funds. Meanwhile, the suppression of US Treasury yields have resulted in spreads widening between S&P 500 dividend yield over the 10-year UST yield (that spread was about 128

bp in May). In the past, lower positive spreads have been associated with positive equity returns. This historical relationship between returns and the "stock-bond yield gap" may be replayed.

The rally that we have seen in US equities since Mar this year sits uncomfortably in the wake of the negative impact of the Covid-19 pandemic, and the nexus between the two is that of unprecedented fiscal and monetary policy interventions globally.

Within equities, the rally since March has been largely driven by Work-From-Home and tech stocks. The rally in the US market has not been uniform, and there are several sectors that have yet returned to their pre-Covid-19 levels.

However, if a vaccine is found within the next 6-12 months, equity markets may look past that, and attention may shift to those companies that may be potential recovery laggards.

Meanwhile, political tensions and rhetoric continue to hoard the headlines ahead of the US Presidential Election, and this will likely see higher market volatility. Currently, Biden has an early lead in the national polls.

Nonetheless be it Biden or Trump, fiscal policy is likely to remain accommodative, and the recovery from the pandemic (and the potential for an effective, widespread vaccine) is likely to remain the driving force of the economic outlook over the coming years.

As such, we highlight stocks that may be viewed as potential recovery plays. However we wish to caveat that the recovery outlook is highly uncertain, the path may be fragile, and timing uncertain.

For now, we believe near term implications are likely to be modest and subject to changes and we still advocate bottom-up stock selection as the primary focus, though we consider the possible implications of a Democrat victory.

Sector	Impact
Technology	Mild negative. Big tech anti-trust concerns, May see some impact from any tax reform
Financials	Mild negative. There may be some risks to challenge Trump's de-regulation. Tax reform may be a negative.
Oil & Gas	Likely negative. Increased focus on shift to environmental protection, shifting to renewables (away from fossil fuels).
Industrials	Mild positive. Likelihood for infrastructure spending, although defense sub-sector may see some budget cuts.
Consumer	Mild positive. If minimum wage is raised, may support consumption although offset by those sectors that are labor intensive (higher labor costs).
Healthcare	Neutral/ Mild negative. Biden may continue Obama administration's policies and support for Obamacare. Tax reforms may be a negative
Real Estate	Neutral. Unlikely to see significant direct policy impact but may see indirect ones from other policies on economy (GDP growth, inflation and interest rates).

To that end, we believe the industrial/ infrastructure sector does present interesting opportunities. We highlight **Honeywell (HON US)** as an equity idea. Honeywell is a high quality industrial conglomerate that is transforming itself into a software-industrial

company serving diverse end markets, as part of its business transformation strategy to become more focused, growth and margin-oriented.

Other names to consider include **Booking Holdings (BKNG US)**, **Cisco Systems (CSCO US)**, **McDonald's (MCD US)**, **Starbucks (SBUX US)** and **Nike Inc (NKE US)**.

For fixed income funds, despite not expecting significant spread compression from here onwards, we continue to like Investment Grades for defensive positioning in one's portfolio. This is on the back of still uncertain outlook yet low yields underpinned by strong monetary policy support. For Fixed income funds, **we continue to advocate Asian Credits**, and we highlight the **Blackrock Asian Tiger Bond Fund**.

In the credits space, we highlight **Frasers Property Ltd SGD 4.15% Senior 2027**. We opine that recent price decline in FPLSP 4.15% 27 presents an entry opportunity to investors. Clients with mid-to-higher risk appetite and mid-term investment horizon can consider participating in this credit.

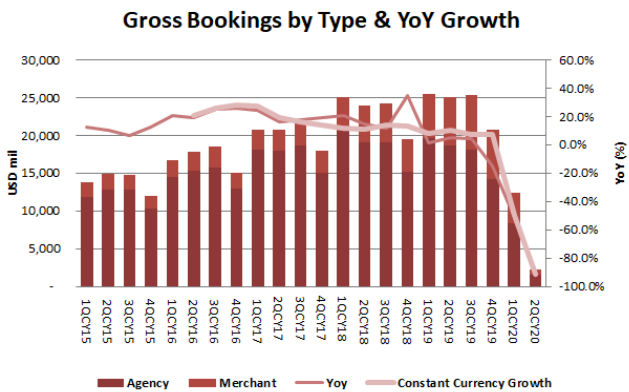
Equity: Booking Holdings (BKNG US)

Summary. We believe Booking Holdings is among the better-positioned in the online travel agency (OTA) space. Its quarterly results had been impacted by the Covid-19 but it has the financial flexibility to help it weather this crisis and to emerge out of it stronger. Its portfolio is well diversified where it has dominance in Europe while having good exposure to the faster growing Asia Pacific travel market via its stakes in CTrip.com and Meituan-Dianping.

Given the market is still fragmented, there is potential for Booking to gain further share. It remained disciplined in its investments across its platforms while its broader travel offerings (such as alternative accommodations and connected trips) may contribute more over time. The end travel market recovery is likely to be fragile unless Covid-19 vaccines are found soon. However, Booking is doing the necessary (align fixed and variable costs) to capitalize should that catalyst come. It is a potential laggard recovery play, more suited to clients with higher risk appetite and longer horizon.

Update

The recent quarterly results were naturally impacted by Covid-19 lockdowns and travel restrictions. There were no surprises from that end. Gross Bookings (be it via Agency or Merchants) collapsed by the most recent quarter 2QFY20 (gross bookings fell 91% yoy in 2QFY20). Having said that, management highlighted that on a m-o-m basis, the negatives around gross bookings and cancellations are moderating.



Source: Compiled from company release

However, management did caution that a very high percentage of new booking have been made with flexible cancellation policies, suggesting that any resurgence in Covid-19 could easily curb the pace of recovery.

Management also highlighted that there is a plateauing of new booking trends in several places recently, emphasizing that recovery is still early & fragile.

Cost rationalization initiatives. BKNG had announced head count reduction across all brands. Headcount reduction for Agoda/ Kayak/ OpenTable/ Priceline should yield annualized savings of ~\$80mm, while a ~25% headcount reduction at Booking.com should save \$250-300mm annually, according to JP Morgan. The timing around \$250M-\$300M savings expected at Booking.com likely will not be realized until 2021. Additional savings are possible as BKNG looks to drive more efficiency across the business.

Considerations

Financial position enables Booking to withstand the challenges. Besides the rationalization initiatives mentioned above, it is in a relatively strong financial position. From its latest financials, it has about USD 1 bn in CB (due Sept 2021) and the rest of USD 10 bn in LT debt with no major refinancing near term in 2021. It has cash & equivalents of ~USD 10 bn (excluding available-for-sale debt investments) as of end Jun 2020. Meanwhile it is rated A3/ A1 (albeit currently put on negative outlook). Given its business model (asset light business), a sizeable chunk of its expenses are variable and tied to revenue and transaction volume. Booking has good liquidity to manage through this global pandemic with ability to reduce expenses which are largely variable.

Booking's strengths are its network and reach. Booking is the incumbent OTA (Online Travel Agency) in Europe through early leadership by establishing a leading network of hotel properties and other related services. Over time, this network effect had expanded in both developed and emerging markets, as well as vertical markets such as rentals and attractions, thus Booking is able to provide a full one-stop service or connected trip offering. So far, it has been challenging for competitors to replicate Booking's strengths in Europe (costly and time consuming) as we understand that more than half the hotel in the region are small boutiques. In emerging markets, Booking had been expanding its reach in China with its investments/ partnerships with CTrip and Meituan-Dianping, as well as its own Booking.com and Agoda.com platforms. It is opined that Asia-Pacific region will be higher growth areas for OTAs.

Key risks include. 1) Increased competition from Expedia, TripAdvisor, Airbnb, Google, and others. According to pre-COVID-19 data, Booking.com maintained its position as a top 10 travel application in over 100 markets, compared with Expedia's top position in 24 markets. However, rivals like Amazon, Google, Facebook, and Alibaba have started

paying more attention to this area, and their early entry can impact the landscape. Nonetheless, it would still require a significant time investment and significant expenses for them to replicate Booking Holdings' network. 2) Prolonged impact from Covid-19 to consumer travel

Equity: Cisco Systems (CSCO US)

Summary. Recent quarterly results beat expectations but forward guidance disappointed investors. Meanwhile, Cisco is increasingly focused on areas like converging security, networking, and analytics together to provide holistic solutions for hybrid-cloud ecosystems. We also look for Cisco to strengthen its as-a-service portfolio to align with current consumption trends.

There are challenges to Cisco legacy business as companies are increasingly shifting workloads to the cloud (hence demanding less of traditional communication hardware). Its strategy is a move in the right direction and company is making progress, albeit a bumpy one. Given its track record, balance sheet, positioning, we do believe they can succeed but we will have to monitor for performance. We view that the negatives have been discounted in the share price and valuation is appealing relative to the tech sector.

Results Update

4QFY20 (end Jul) results was slightly ahead of consensus. Nonetheless, revenue for the quarter fell 9.5%, and operating income fell 12% yoy.

Infrastructure platforms was greatly affected by the pandemic spending environment and declined by 16% year over year. Switching, routing, data center, and wireless all declined, driven by commercial and smaller enterprise spending weakness. Infrastructure Platform (consist of hardware and software products for switches, routers, data center products and wireless applications.

Applications decreased by 9% yoy, as the strength in WebEx and AppDynamics could not make up for headwinds seen in parts of the segments. Security grew by 14% yoy with demand for network, identity and access, and cloud security performing well.

Services was flat yoy as growth in maintenance was offset by declines in advisory services.

Mill USD	Q4 FY19	1Q FY20	2Q FY20	3Q FY20	4Q FY20	YoY
Revenue	13,428	13,169	12,005	11,982	12,154	-9%
Product	10,120	9,878	8,671	8,596	8,832	-13%
Infrastructure Platforms	7,876	7,538	6,528	6,429	6,626	-16%
Applications	1,487	1,499	1,349	1,363	1,357	-9%
Security	714	815	748	776	814	14%
Other	42	26	46	28	35	-17%
Service	3,308	3,281	3,334	3,386	3,322	0%

Source: Compiled from company release

Outlook. Guidance by management for the coming quarter 1QFY21 disappointed as it is expecting a sequential weakness,

due to weak external spending environment (esp from campus spending and SMEs).

Considerations

Cisco has delivered on most of its deliverables. Cisco executed on its initial transformation plans as it largely surpassed its 2017 targets for software mix (29% vs. 30% target), software and services mix (51% vs. 50% target) and subscription as percentage of software (78% vs. 66% target).

Cisco facing up to challenges. In addition to a sluggish recovery in Enterprise IT spending trends, Cisco's portfolio of products, which are still heavily aligned to on-premise IT investments from Enterprise and SMEs, are facing both near-term as well long-term architectural challenges. In that regard, Cisco management will now focus on realigning investments towards strategic growth areas, particularly SaaS-based solutions, etc.

Despite the successful transformation, weak revenue trends due to structural challenges means management need to transform. To that end, Cisco plans to rebalance R&D towards growth areas (e.g. Cloud security/collaboration, enterprise automation, application insights/analytics, 5G, Wi-Fi 6 etc) with majority of portfolio to be delivered as a service.

Cisco is actively repositioning its portfolio such as enhancing its business as a one-stop-shop for networking solutions. Beyond its traditional strength in hardware equipment, it is increasingly emphasizing software and applications, to further integrate with hardware. Cisco is also accelerating its move towards a subscription-based revenue model over its previous licensing-based business. Cisco is evolving its portfolio to stay ahead of trends in areas such as switching, communications, cybersecurity management, and analytics. We expect Cisco to continue looking to acquisitions to bolster its capabilities in these areas to offset pressure in maturing market segments.

Cisco is targeting \$1 bn in annual cost reduction, while visibility into a recovery remains limited. With the newly announced cost extraction plan, with around \$800 billion of savings expected in 1QFY21 (majority to be operating costs), we believe Cisco is right-sizing for a prolonged challenging spending environment.

Key risks include: 1) Large enterprises could look to out-source network infrastructure capabilities or move work-load to the cloud (to external cloud service providers). This move may reduce the opportunity set for traditional network equipment suppliers like Cisco. Also, in the networking space, barriers to entry to new players for software is likely to be lower than hardware, and this raise the competitive threats for the incumbents like Cisco. 2) The current US-China trade tension/ tariff war may impact Cisco's chances to expand its businesses beyond its traditional customers-base.

Equity: Honeywell (HON US)

Summary. Honeywell is transforming itself into a software-industrial company serving diverse end markets, as part of its business transformation strategy to become more focused, growth and margin-oriented. It had been divesting lower margin low growth businesses while acquiring those that offer structural growth and margin expansion opportunities. Honeywell's robust balance sheet also enables it to deploy cash to growth capex at a time when its peers are scaling back. Organically, it has executed its cost-rationalization with strict adherence to efficiency and profitability.

The Covid-19 has impacted many of its segments, but we opine Honeywell has attractive businesses with leading positions and exposure to interesting growth markets over the longer term. Coupled with the strong execution, we believe Honeywell has the ability to emerge stronger than peers post-Covid-19. Finally, we believe policy stimulus (especially fiscal policies focused on infrastructure spending) may likely remain under either of the candidates for the upcoming US Presidential election, and Honeywell may be a potential beneficiary.

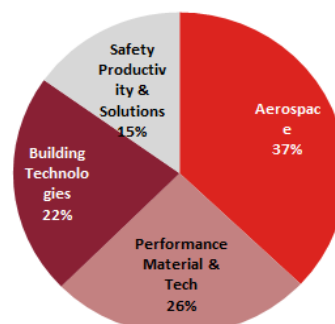
Background.

Honeywell operates through 4 business segments--aerospace, building technologies, performance materials & technologies, and safety and productivity solutions:

1. **Aerospace** - largest segment with about 38% of FY19 group revenue. Honeywell's products are found in virtually every commercial, defense and space aircraft. Products & services include auxiliary power units, propulsion engines, environmental control systems, integrated avionics, advanced systems and instruments etc. Key competitors are Garmin, Safran, Thales and United Technologies.
2. **Honeywell Building Technologies ("HBT")** - is about 18% of FY19 group revenue. This segment provides solutions that enable building owners and occupants to ensure their facilities are safe, energy efficient, sustainable and productive. Products & services include software applications for building control and optimization, control systems and instruments for energy management, etc. Key rivals are Johnson Controls, Schneider Electric, Siemens and United Technologies.
3. **Performance Materials & Technologies ("PMT")** - 30% of FY19 group revenue. Honeywell is a global leader in developing and manufacturing high quality performance chemicals and materials, process technologies and automation solutions. Key rivals are BASF, Emerson Electric, Dupont etc.

4. **Safety & Productivity Solutions ("SPS")** - 17% of FY19 revenue. SPS is a leading global provider of products and software that improve productivity, workplace safety and asset performance. Key rivals are FM, Kion Group, etc.

Sales Mix FY19



Source: Compiled from company release

Considerations

A better/ diversified play on recovery. Honeywell has a difficult 1HFY20 given the impact to several of its key markets, such as Aerospace, HBT and PMT. The weakness should not surprise, given that a clear majority of Honeywell's business faces severe economic headwinds in the commercial aerospace, oil and gas, and commercial building end markets. Having said that, both 1Q and 2QFY29 results had beat expectations. Honeywell is one of the few better managed industrial companies during this difficult times, given robust balance sheet, good execution, quality of its solutions portfolio and the investments it had been making. For a start, it is cutting back in costs. Management has also been successful in driving operational improvements while rationalizing the portfolio through divestitures and good acquisitions. Through productivity and restructuring savings, it can enjoy margin leverage even in a low growth environment.

Strong balance sheet allowing company to continue invest rather than scaling back. Company has a net-debt to LTM EBITDA of 0.9x and it ended 2Q with about USD 15 bn in cash and ST investments. Although the company is cutting costs in this environment, it continues to deploy cash to growth capex, which sets it apart from its peers (many of whom have scaled back all capex). In particular, Honeywell is focusing on opportunities in AI/ Cloud. Analytics, Mobility/ Connectivity, Platforms, Sustainability where there are long term potential. We saw a string of new product or service announcements, from Honeywell's building solutions partnership with SAP to its pandemic-related sanitization products using ultraviolet

radiation and other technology. Honeywell also have a good M&A track record.

Key Risks: 1) Sharper than expected decline in aerospace industry; 2) weaker commercial and residential segment; 3) expensive acquisitions; 4) poor execution of strategy

Equity: McDonald's (MCD US)

Summary. 2Q results should likely to be the trough and we expect sequentially improvements for 2HFY20. Given its diversified markets, the recovery will not be even. However, we are seeing the company doing several things- leveraging on its technological platform, scale to achieve efficiency and a strong war-chest to potentially stimulate demand. This means that, on a relative basis, smaller F&B outlets may not be able recover as fast as MCD, nor have the sufficient means to compete post Covid-19.

Investors should prioritize those that have the scale to be more aggressive on pricing near-term, have robust mobile platforms, and healthy balance sheets. MCD is such a player- that is well positioned to compete for market share lost by the smaller players once the economy recovers from Covid-19.

Considerations.

No surprises from the 2Q results. Same-Store-Sales (SSS) was weak as expected during 2Q where many of its stores were impacted by lockdowns. For the Quarter, SSS for US was down -8.7%, Int'l Operated Markets - 41.4%, and Int'l Development licensed markets down 24.2%. Consequently, Group revenue fell 30% in 2Q, and Operating Income dropped 58% yoy.

Sequential improvements. As can be seen by the monthly SSS below, the worst month was in April (start of their 2Q) but had been improving up to June. In particular, management hinted that it was a slight positive SSS for July (start of 3Q) for its core US operations, as 99% of the stores are now operational, although about 14% of dining rooms are open to seat customers. So far, drive-throughs, delivery and mobile order & pay had been effective in mitigating the negative impacts.

Same Store Sales Growth (%)	2QFY20	Mar FY20	Apr FY20	May FY20	Jun FY20
US	-8.7%	-13.4%	-19.2%	-5.1%	-2.3%
Int'l Operated Markets	-41.4%	-34.7%	-66.7%	-40.5%	-18.4%
Int'l Development Licensed Markets	-24.2%	-19.4%	-32.3%	-20.0%	-20.3%
Total	-23.9%	-22.0%	-39.0%	-20.9%	-12.3%

Source: Compiled from company releases

Efficiencies. The company has also pulled some menu items off (such as putting its all-day breakfast on hold) while keeping only core menu items in the US and in some other major global markets. This should help improve operational efficiency, productivity as well as margins given that it is facing challenges with staffing during this period.

For the international markets, there are great differences. For instance, the UK was almost entirely closed with off-premise re-opening beginning only in June. France was similar but opened earlier. Germany was not really closed, but this market had been more value-driven. Overall, 94% of the stores were open as of end June with about two-thirds of restaurants in France, Germany and UK have drive-throughs.

Regardless, we are encouraged that overall International markets are showing only high single digits SSS decline in July, as the main 5 markets of UK, Germany, Australia, Canada and France were down only mid-single digits.

Looking forward in the short term, U.S. running slightly positive, international operated markets running at mid- to high-single-digit declines, and international developmental licensed markets likely running at high teens declines.

We share management's view that 2Q was likely to be the sales trough for the year. First, MCD has amassed a "marketing war chest" (including a commitment for \$200 million in marketing support in the U.S. and international operated markets), which gives it an advantage over its peers to stimulate growth, including greater emphasis on value. We are also seeing increasing contribution from McDonald's drive-throughs due to efficiency improvements and Dynamic Yield's suggested ordering technologies, which should drive average ticket sizes higher. Lastly, we expect menu innovation across all dayparts in the back half of the year, including new value and chicken products. All these should help to see a 2H recovery.

Key risks: a) macro pressures (including elevated unemployment), b) a potential return of restaurant operating restrictions in several markets due to a second wave of Covid-19; c) poor execution of strategy; d) higher competition from other delivery aggregators.

Equity: Starbucks (SBUX US)

Summary. 3Q results were in line and markets cheered on the more upbeat guidance for 4QFY20. We believe that Covid-19 still present challenges for Starbucks and all speciality coffee chains, mainly in the States. However, we expect Starbucks will be better in dealing with the crisis compared to peers, and also emerge stronger. Its China business is likely to remain as the longer term driver and currently poised to fully recovery by end of year or latest 1QFY21.

Starbucks is well-positioned to leverage its digital assets and new operating formats, like contact-less pickup to expand service to customers. Its focus on the customer experience, beverage innovation and digital differentiates Starbucks. Management remained confident should enable them to regain the momentum they had prior to Covid-19.

Considerations.

2Q results are expectedly weak (within expectations) during the lockdown phase across several locations. Group Same-Store-Sales (SSS) declined 40% due to a collapse in transactions (although partially offset by higher ticket size).

The relative reliance on pick-ups from morning crowds and in US with focus on beverages than full meals, showed up in higher decline SSS when compared to normal full service QSR (Quick Service Restaurant) like McDonald's. Consequently, Starbucks showed an operating loss in 3QFY20 while MCD still showed positive operating income.

Comparable Store Sales	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Group SSS	6%	5%	5%	-10%	-40%
Americas	7%	6%	6%	-3%	-41%
International	5%	3%	1%	-31%	-37%
-China	6%	5%	3%	-50%	-19%

Source: Compiled from company releases

More upbeat store sales growth guidance for 4Q and full year.

Starbucks management guided for comparable store sales (SSS) decline of 12 for 4QFY20 and for the full year -17% for full year.

- Americas and US comparable store sales to decline of 12% (4QFY20) and -17% for full year FY20.
- International comparable stores sales decline of 10%- 15% for 4QFY20 and decline of 20%-25% for full year.
- China comparable store sales to be flat to -5% for 4QFY20 and a decline of 15-20% for full year FY20.
- China to add at least 500 net new stores, while Americas will add ~300 net new stores.
- Overall revenue to decline 10-15% for 4QFY20.

China remains a longer term growth driver. China is nearly fully opened as a market, with 99% of stores operating and 70% of stores enjoying full seating capacity. China comparable store sales were down 35% and 21% in April and May until improving to -16% in June and down 12-14% in July.

Starbucks continued to expand customer reach in this market as it launched WeChat functionality in May and a multi-tier redemption in June. Further, 96 net new stores were actually opened in 3Q20 attesting to the potential of China's expansion. Management is expecting China sales to fully recover back to pre-Covid-19 levels by the year of the year or latest 1QFY21 (which is expected to be a quarter earlier than US)

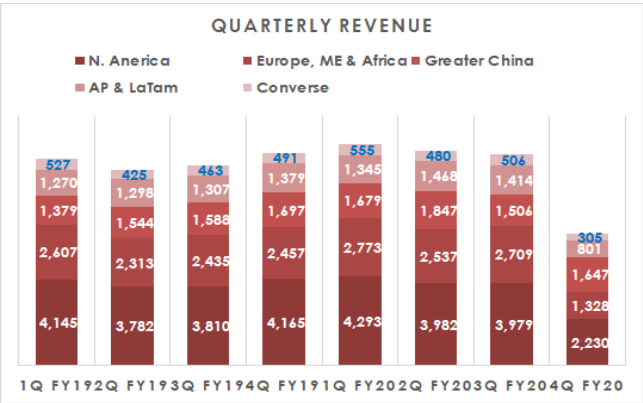
US recovery is key catalyst for now but a lot depends on execution and Covid-19. Approximately 96% of US Company system is open at this juncture, and 40% of the total US store base have some sort of US seating capacity available. The morning day-part for SBUX - whether driven by work-away from-home or school - is approximately 50% (pre-11am) of the operations, and this habitual purchase remain affected by the Covid-19. Starbucks is trying to mitigate this by adding curb-side pick-up to 700-1000 of its US stores in FY20, which will help drive transactions counts. Still, key is for the return of the morning day crowd in the US.

Meanwhile, management will continue to capitalize on Starbucks Rewards program given the strong rewards member engagement that is out-pacing non-members and the return to positive growth from rewards members in early July, underscores a general cautious confidence in the recovery trajectory for SBUX.

Key risks 1) extend delay from Covid-19 or a 2nd wave infection; 2) stiffer competition from US/ China; 3) poor execution of strategy to stall its growth recovery.

Equity – Nike Inc (NKE US)

Summary. Through excellent product innovation, technology investments and brand marketing, Nike should maintain its leadership of the athletic apparel market once it overcome the extraordinary challenge of Covid-19. Based on management comments, we expect progressive improvement 1H FY21 and an inflection point in 2H FY21. We like Nike's "The Consumer Direct Acceleration" strategy, which calls for Digital penetration to reach 50% of sales (vs. 30% prior target). Note that digital transaction is financially accretive to both sales and gross margin with E-commerce to become increasingly accretive over time as investments scale. With its focus on execution of its strategy in design and product innovation, speed and responsiveness to customers, and emphasizes direct-to-customer sales, Nike should likely pull ahead of its peers over time. Premium valuation is justified as the strategy are sales and margin accretive.



Source: Compiled from Company release

Triple- Double Strategy. Fundamentally, Nike's Triple Double strategy of increased innovation, direct-to-consumer sales, and speed may improve margins and profit share over the longer term. Note that Nike's consumer plan is led by its Triple Double strategy to double innovation, speed, and direct connections to consumers. We think these strategies will allow Nike to win share as well as pricing.

Nike focusing on direct-to-consumer sales. Nike continues to develop its direct-to-consumer business as some of its traditional retail channels, such as U.S. department stores and sporting goods stores, struggle to compete with e-commerce and discount retail. Nike direct, which includes e-commerce and Nike-branded stores, generates about a-third of Nike brand revenue. Membership growth in its digital channel has exceeded expectations and such direct-to-customer and digital sales growth should mitigate some of the negative impact from the store closures due to Covid-19. Nike's gross margins may expand by a few dozen basis points per year through automation, e-commerce, and higher prices.

Key risks include 1) worse than expected breakout of the Covid-19 in terms of spread and when the peak will indeed be reached; 2) Tokyo Olympics may be postponed or cancelled or scaled down; 3) poor execution of Nike's strategy which leads to share loss of Nike to competitors.

Fixed Income: Frasers Property Ltd SGD 4.15% Senior 2027

Summary: FPLSP's performance for 2HFY20 will be impacted by Covid-19, given its exposure to hospitality and retail assets. Debt levels remain elevated as of 1HFY20 results. That said, markets are of the view that FPLSP can retain access to financing, which should help refinance most of their ST debt amounting to S\$4.67 bn.

The hospitality segment is expected to bear the brunt of Covid-19 outbreak with lower contributions on the back of reduced occupancies across all its properties. Its industrial and logistics strategic business unit continued to deliver strong performance for 1HFY20. Furthermore, with 3 REITs under its sponsorship (namely FCT, FLCT and FHT), FPLSP can conduct asset recycling activities for divestment, which should help pare down debt and improve cashflows. As part of its move to conserve cash, FPLSP has temporarily suspended its interim dividend and reduced directors' fees and senior management salaries.

We opine that recent price decline in FPLSP 4.15% 27 presents entry opportunity to investors (cash price declined c.2 pts since mid-June). The bond is trading at spread of c.340 bps over similar tenured government bond. We also noted that the spread between CAPLSP 3.08% 27 over FPLSP 4.15% 27 has widened from c.70 bps in early 2020 to current levels of 140 bps, which suggests that markets have priced in the impact of the pandemic and weaker fundamentals to a certain degree. Clients with mid-to-higher risk appetite and mid-term investment horizon can consider participating in this credit.

Background. Frasers Property Limited ("FPLSP") is a real estate owner-operator-developer listed on SGX with a market cap of S\$3.4 bn. The group has total assets of S\$38.68 bn spanning residential, retail, commercial/ business parks, industrial/ logistics and hospitality, located across SEA, AU, EU and China, etc. FPLSP is also the sponsor of 2 REITs and 1 stapled trust listed on SGX- Frasers Centrepont Trust ("FCT"), Frasers Logistics & Commercial Trust ("FLCT") and Frasers Hospitality Trust ("FHT"). The group has 2 REITs listed on Stock Exchange of Thailand.

Salient Terms of Bond (ISIN: SG79A700003)	
Issuer	Frasers Property Treasury Pte. Ltd.
Guarantor	Frasers Property Ltd.
Issue Rating	Unrated
Issue Size	US\$500.0 mil (Min denom.: S\$250k)
Maturity	23 rd Feb 2027
Coupon	4.15% p.a.

Ask Price/ YTM ^	Please Call
Type/Ranking	Senior
Optional Redemption	Make whole call at SGD swap offer rate plus 50 bps.

^Source: CIMB Treasury (as of 17 August 2020); on gross basis.

Investment Considerations:

Revenue visibility & foothold across region: 1HFY20 (as of 31 March) revenues grew by +5.7% yoy to S\$2.1 bn, on the back of higher contributions from settlement of development projects in China, coupled with contributions from PGIM ARF and consolidation of Golden Land acquisition (boosting revenue from Thailand). FPLSP reported 1HFY20 pre-sold revenues of c.S\$1.3 bn from property development (across AU, China, SG), which offers revenue visibility in the mid-term.

REITs-platform for asset monetization: FPLSP is the sponsor for several REITs, which facilitates capital recycling. For e.g. FPLSP had completed divestments to FLCT; 2 properties for S\$94.6 mil in 1QFY20 and remaining 50% interest in Farnborough Business Park for S\$157.7 mil in 2QFY20.

Strong shareholders' backing: FPLSP's largest shareholder is TCC Assets Ltd. and Thai Beverage Ltd with collective shareholding of c.87%. TCC group of companies is controlled by Charoan Sirivadhanabhakdi, one of the richest men in Thailand as ranked by Forbes. TCC group is a large conglomerate with listed entities, such as Thai Beverage Ltd and Fraser & Neave Ltd., etc.

Key Risks.

Gearing position: Debt levels remain elevated at S\$20.39 bn as of 1HFY20 results, which represents +30.8% yoy (figure includes leasing liabilities). Gearing ratio (adjusted for perps) deteriorated to 1.62x compared to 1.34x back in FY2018. The net debt issuance of approximately S\$1.6 bn for 1HFY20 was mainly attributed to acquisition. Cash to ST debt ratio remained weak at 77.3%.

Notwithstanding that, FPLSP is actively managing its capital position to meet its coming debt maturities. Besides, FPLSP has been able to retain access to financing, even in this period. Noted that group has secured a S\$359 mil green loan to finance the development of a 500-unit executive condominium in Fernvale Lane, Singapore in June 2020.

The group has taken several steps to manage its liquidity and pare down debt:

- i. Net proceeds of approximately S\$174 mil from new units' subscription of North Gem Trust (subsidiary which owns Northpoint City South Wing) by an external party.

- ii. Proposed divestment of Maxis Business Park in Thames Valley, UK and a logistics property in South east Melbourne, AU to FLCT for consideration of S\$89.9 mil.
- iii. As part of its move to conserve cash, FPLSP has suspended its interim dividend.

Approved divestment, by February 2021, of up to roughly S\$264.6 mil for its Thai assets.

Unit Trust Fund: Blackrock Asian Tiger Bond Fund

Objective. BlackRock Asian Tiger Bond Fund seeks to maximise total return. The Fund invests at least 70% of its total assets in the fixed income transferable securities of issuers domiciled in, or exercising the predominant part of their economic activity in, Asian Tiger countries. The Fund may invest in the full spectrum of available securities, including non-investment grade. The currency exposure of the Fund is flexibly managed.

Strategy. The Fund invests at least 70% of its total assets in the fixed income transferable securities of issuers domiciled in, or exercising the predominant part of their economic activity in, Asian Tiger countries. The Fund may invest in the full spectrum of available securities, including non-investment grade. The currency exposure of the Fund is flexibly managed.

The Fund may invest directly up to 20% of its total assets in the PRC by investing via the Renminbi Qualified Foreign Institutional Investor Quota.

The Fund may gain direct exposure for no more than 20% of its total assets to onshore bonds distributed in Mainland China in the China Interbank Bond Market via the Foreign Access Regime and/or Bond Connect and/or other means as may be permitted by the relevant regulations from time to time. The Fund may invest up to 20% in aggregate of its total assets in the PRC via Renminbi Qualified Foreign Institutional Investor Quota, the Foreign Access Regime and/or Bond Connect.

The Fund's exposure to contingent convertible bonds is limited to 20% of total assets and the Fund's exposure to Distressed Securities is limited to 10% of its total assets.

The Fund may use derivatives for investment purposes and for the purposes of efficient portfolio management.

Sector Breakdown (%)		
	Fund	Benchmark
Industrials	28.52%	24.14%
Govt. Related	28.27%	41.20%
Property	15.71%	10.01%
Government	12.40%	13.36%
Financials	12.35%	11.29%
Cash and/or Derivatives	2.75%	0.00%

Source: Fund Factsheet (July 2020)

Geographic Breakdown (%)		
	Fund	Benchmark
China	48.50%	50.91%
Indonesia	11.22%	11.64%
India	7.44%	5.98%
Hong Kong	6.11%	8.45%
S. Korea	5.12%	8.02%
Philippines	4.59%	4.53%
Cash and/or Derivatives	2.75%	0.00%
UAE	2.45%	0.00%
Thailand	2.26%	1.60%
Malaysia	2.24%	2.79%
Other	7.32%	6.07%

Source: Fund Factsheet (July 2020)

Credit Ratings (%)		
	Fund	Benchmark
Cash and/or Derivatives	2.75%	0.00%
AAA	0.00%	0.52%
AA	2.53%	5.65%
A	23.60%	32.04%
BBB	45.94%	41.10%
BB	9.61%	8.05%
B	13.51%	9.06%
CCC	0.47%	0.28%
CC	0.22%	0.02%
C	0.47%	0.03%
D	0.10%	0.00%
N Rated	0.80%	3.24%

Source: Fund Factsheet (July 2020)

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