SPECIAL FREE REPORT

THE SMART INVESTOR

3 TOP STOCKS I WILL BUY IN 2021

+ BONUS

3 TRENDS TO WATCH OUT FOR

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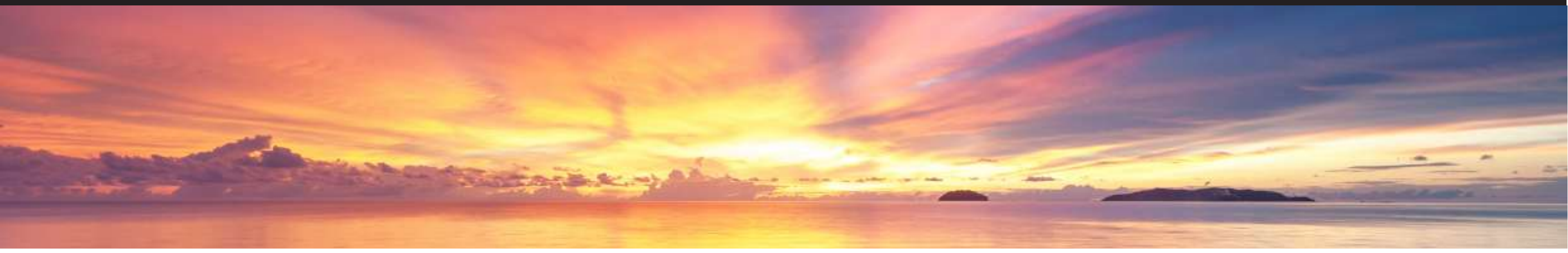


Introduction and segue

It's hard to believe, but 2020 is almost drawing to a close.

With 2021 almost upon us, it's time to look forward to better days ahead.

A new hope has arisen with several promising vaccines that may rid the world of the dreaded COVID-19 pandemic and hopefully usher in a wave of recovery for the global economy.

Prime Minister Lee Hsien Loong has just announced that Singapore will enter Phase III on 28 December, where the permitted group size for gatherings will be raised from five to eight.

The human race will look bravely at a new normal as we embrace the promise of a new day.

New or modified practices and habits have arisen as people adapt to these new conditions.

As physical contact has been strongly eschewed, the online world has seen a boom in usage and demand.

Existing trends that were slowly seeping into our lives have been greatly accelerated.

One of the most pervasive changes to our lifestyles is telecommuting, or working from home (WFH).

With the help of video conferencing tools, internet connectivity and smartphones, more and more companies have implemented WFH for their employees.

Even as economies slowly open up, the landscape will look very different from what it used to be in 2019.

Some practices could be here to stay, while others will face a sea change and be modified to suit the new normal.

Businesses are being forced to adapt

Not only have our personal lives been irreversibly disrupted, businesses have also been forced to cope with the pernicious effects of the pandemic.

Those who were either unwilling or unable to change and adjust have gone bust, while others have had to modify their processes to adapt to a new way of doing business.

Not all of this is negative, though.

Crises can be a good way for businesses to retool themselves and discover better ways of doing things.

When push comes to shove, human beings will find a way to deal with the difficulties and obstacles that come their way.

And in the process, many surprising new trends have emerged that may be here to stay.

In this report, we take a look at three trends that should last through 2021, as well as three stocks that can tag on to these trends to perform well.

Trend 1: A sharp increase in data usage

With more and more people staying at home due to the pandemic, data usage has also exploded.

More people than ever are telecommuting as companies have been forced to rethink how to manage their people and processes during the pandemic.

Through the use of virtual private networks (VPN) and cloud infrastructure, more employees are now effectively working from home.

And as lockdowns and movement restrictions kick in, more are turning to laptops and smartphones to stay in touch with loved ones and friends.

Their increased usage of everything from social media to teleconferencing apps has pushed digital traffic up to record levels.

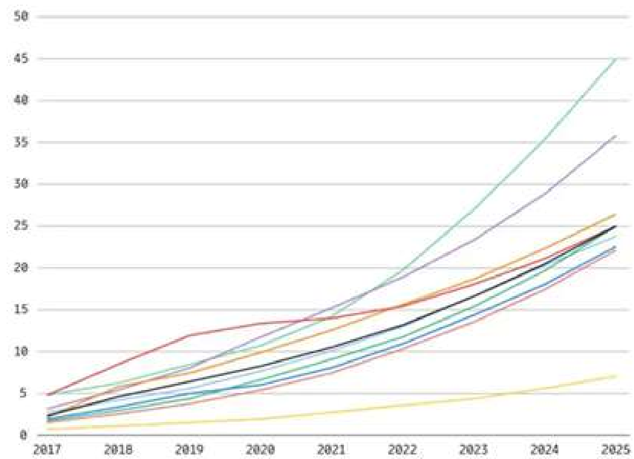
Ericsson, a Swedish multinational networking and telecommunications company, published a mobile data traffic outlook report recently.

At the end of 2019, global mobile data traffic reached around 33 exabytes (EB) per month.

Note: For those of you who may be more familiar with the term "gigabytes", an exabyte represents one billion gigabytes!

Ericsson has forecast that mobile data traffic will grow by a factor of almost five to reach 164 EB a month by 2025.

This traffic encompasses the data that will be consumed by around six billion people over a multitude of devices such as smartphones, laptops and other new connected devices.



Regions	2019	2025	CAGR 2019–2025
North America	8.5	45	32%
Western Europe	8.2	36	28%
North East Asia	7.5	27	23%
India	12	25	13%
South East Asia and Oceania	4.6	25	33%
Global average	7.0	25	25%
Central and Eastern Europe	5.8	24	27%
Latin America	3.9	22	34%
Middle East and North Africa	5.0	23	28%
Sub-Saharan Africa	1.6	7.1	28%

Figure 19: Mobile data traffic per smartphone (GB per month)

Source: Ericsson

Of course, the assumption here is that fifth-generation networks, also termed "5G", will play a critical role in the explosion of data usage.

Many countries, including Singapore, are keen on building the required infrastructure (including communication towers) that form an integral part of this enhanced connectivity.

According to the World Internet Usage website, global internet penetration is estimated to be around 63.2% as of the third quarter.

The fastest growth rates have been witnessed in the continents of Africa, Latin America and the Middle East, with Asia not far behind.

Of note, Africa's internet penetration rate is at 47.1%, implying significant room for growth.

Asia's penetration is around 60% and has the largest estimated population of 4.3 billion people, so that's an opportunity for the remaining people to get connected.

Of particular note is the Southeast Asian region, which saw a surge in the use of digital services such as e-commerce, food delivery and online payments.

According to a recent news report from Google, under parent **Alphabet** (NASDAQ: GOOGL), Temasek Holdings and Bain & Company, as many as 40 million people across six countries - Singapore, Malaysia, Indonesia, the Philippines, Vietnam and Thailand, came online for the first time in 2020.

No doubt, the pandemic has been responsible for accelerating a trend that was already taking root in many parts of Asia.

But as more and more people go online, they will discover a new and better way of connecting with loved ones and of going about their daily routines.

With this newfound discovery, these same people are unlikely to revert to their previous mode of living, which makes internet adoption a particularly "sticky" phenomenon.

The statistics and trends above point to significant potential for more people to hop on to the internet over time, while people who have experienced the power of being online will continue to consume increasing amounts of data.

Stock 1: Keppel DC REIT (SGX: AJBU)

A stock that is well-positioned to capture this trend is Keppel DC REIT.

Keppel DC REIT is a pure-play data centre REIT that owns a portfolio of 18 data centres across eight countries in Asia Pacific and Europe.

Its portfolio was worth S$2.9 billion as of 30 September 2020.

COVID-19 provided an added boost for data centres as they remain a resilient asset class that supports the digital economy.

Enterprise spending on cloud infrastructure services increased by 33% year on year to almost US$33 billion in the third quarter of 2020 (3Q 2020).

This increase in spending was spurred by changes in working practices that allowed more video conferencing, and the shift of on-premise work processes to cloud-based solutions.

Spurred by this trend, enterprise spending on cloud infrastructure is expected to grow rapidly by 22% per year over the next five years.

In an October 2020 report by Danseb Consulting, it projected that APAC data centre spending is set to surpass US$30 billion by 2023 and account for over 30% of the global market for data centres.

Despite limited new supply, the European data centre market is expected to grow by more than 40% to more than US$20 billion by the same year.

These trends are favourable for Keppel DC REIT.

For the first nine months of 2020, gross revenue has jumped by 35.1% year on year to S$191.6 million, driven by acquisitions made during the year.

Net property income soared by 37.1% year on year to S$176.6 million, while distribution per unit (DPU) rose 16.5% year on year to S$0.06732.

Based on the first nine months of the year, the REIT's annualised DPU stands at S$0.8976, providing a forward yield of around 3.3% at a share price of S$2.73.

With the aforementioned tailwinds supporting the REIT's prospects, there's a high chance the REIT can continue to enjoy steady increases in DPU in the years ahead.

Trend 2: Omnichannel retailing

You've probably bought something off an e-commerce website in the last six months, as the circuit breaker measures and social distancing guidelines have made it tough to visit malls and shops.

Many Singaporeans did.

In fact, online sales penetration for Singapore's retail sector peaked at 25% in May, at the height of the circuit breaker period, before settling back to around 11% from July.

Source: Singstat

While online shopping has retreated from its peak, its penetration is still almost twice it was in January.

The trend above has made brands realise the importance of having both a physical and an online presence.

Welcome to the next trend that we see percolating through more and more businesses in 2021: that of omnichannel retailing.

What does omnichannel retailing refer to, and how is it defined?

Simply put, it is a fully-integrated approach to commerce that provides shoppers with a unified experience across all channels.

What this means is that a digital, online aspect is layered onto brick-and-mortar stores.

Some examples include mobile browsing, online marketplaces, social media, and advertisements that target customers with offers for online stores or special discounts on limited-edition catalogues.

Shopify (NYSE: SHOP), a multinational e-commerce company that provides an online platform for thriving, online business, explains the merits of having an omnichannel marketing strategy.

Almost 75% of shoppers use multiple channels to compare prices or hunt for discounts, making omnichannel retailing all the more relevant in this day and age.

Here's the kicker: omnichannel customers end up spending 4% more on every shopping occasion in-store, and 10% more online compared to customers who use just one channel.

In short, the more channels the customer uses, the more they will spend.

Businesses that want to boost their sales numbers need to tap on effective omnichannel strategies to boost their presence, engage their customers and offer a holistic retail experience.

Also, research has shown that omnichannel businesses enjoy an 89% customer retention rate, compared with just 33% for those that do not employ this strategy.

An omnichannel strategy is best represented by a phygital marketing strategy, with "phygital" being the combination of the words "physical" and "digital".

Phygital experiences are immersive and real-time, and often directly engage customers to trigger immediate transactions.

By stimulating a customer's five senses, a brand has a much better opportunity to draw the customer in, thereby closing the sale and creating lasting customer loyalty.

The difficulty, however, is in offering a seamless experience for the customer.

This experience can be achieved through extensive data mining.

By building a repository of customer information, including their preferences and history of purchases, a business can then offer a more personalised experience.

Imagine walking into a store where the salesperson can guide you to products that suit your personal preferences.

This information has already been carefully curated through your online selection and indications even before you physically step into the store.

Together, omnichannel retail and phygital strategies can enable businesses to engage their customers constantly, thus building up strong customer attachment and long-lasting loyalty.

Even the online retailers are getting into the act.

JD.com (SEHK: 9618), an e-commerce retailer, has plans to build a network of five million physical stores over the next three years, underscoring the importance of having both physical and online presence in the retail industry.

If that is not an endorsement of the trend, then we don't know what is.

Stock 2: Nike (NYSE: NKE)

If you've ever purchased a pair of running shoes or a sports jersey, then you're probably familiar with Nike.

The sports footwear and apparel behemoth is well-known for its innovative shoes, a wide range of products and cutting-edge technology.

For instance, Nike's Vaporfly running shoes caused a stir by helping international athletes to come close to smashing the two-hour marathon barrier.

The shoes sold so quickly and were so successful that they were almost banned by World Athletics, the governing body for track and field.

Its next iteration, the Nike Alphafly Next% that was released in October 2019, quickly sold out as well..

Apart from showcasing Nike's impressive product range, the company has also reported encouraging numbers.

For its fiscal 2021 first quarter ended 31 August 2020, Nike reported a 1% year on year decline in revenue to US$10.6 billion, but net profit jumped by 11% year on year to S$1.5 billion.

This performance was impressive, considering the majority of its stores globally had to be temporarily shut earlier this year in the wake of the pandemic.

Management expressed its confidence by announcing a 12% increase in its quarterly dividend to US$0.275 per share. This increase marks the 19th consecutive year that Nike has raised its dividend.

The good performance was a result of digital sales increasing 82% overall, with double-digit increases seen across North America and China, while the Europe, Middle East and Africa (EMEA) division saw a triple-digit digital sales increase.

The seeds of success were sown before the pandemic hit.

In its previous fiscal year (ended 31 May 2019), Nike spent over US$1 billion on its omnichannel digital transformation.

The investments have been rewarding.

Nike's main e-commerce app, which allows users to browse for products online, has seen an almost 200% growth in demand in the latest fiscal quarter, along with triple-digit growth in monthly active users.

The Nike Training Club app, which offers free workouts that include yoga classes and bodyweight workouts that require minimal to no equipment, witnessed an all-time high percentage of members using it to work out from home.

Meanwhile, the company's Nike Run Club app, which offers tools such as GPS tracking and audio-guided runs, saw four consecutive months of more than one million downloads each month for its audio-guided runs.

The original target was for digital commerce to make up at least 30% of total sales by the year 2023.

But the pandemic has helped Nike hit its goal three years ahead of schedule.

Nike has been at the forefront of the phygital concept even before the pandemic hit the globe.

Two years ago, it opened a new Live concept store in Los Angeles that combined the best of physical and digital retail experiences.

The new concept store, called "Nike by Melrose", had its product assortment curated using insights gained from NikePlus member activity and buying patterns gleaned from a variety of Nike's apps (such as those mentioned above).

Looking ahead, the company is continuing to put digital at the forefront, with innovative retail concepts that emphasize a unique offline-to-online experience.

Its new store in Guangzhou, which was opened during the quarter, is a data-powered store concept that offers a one-to-one personalised shopping journey. Early indications are positive as member checkout has been significantly higher than Nike's other stores.

The future of retail promises to integrate the online and physical worlds to make it a seamless shopping experience for the digitally-connected customer.

Nike is a pioneer in this area, and with its continuous innovation that focuses on curating a phygital retail environment for its customers, the company is poised to continue growing in the future.

Trend 3: The shift to digital payments

The third trend that will carry over strongly into next year is that of digital payments.

Digitally-enabled payments were already a growing force to reckon with even before the onset of the pandemic.

The pandemic has acted as a catalyst, accelerating the adoption of online payments in countries that relied on physical cash, while also increasing the frequency and basket size for online purchases for those who were already purchasing through online channels.

The statistics are startling, to say the least.

For instance, **Mercado Libre** (NASDAQ: MELI), Latin America's leading e-commerce technology company, saw a huge uplift in payments recently.

The company's Mercado Pago online payments platform saw payment volume surge by 71.5% year on year to US$33.8 billion in the first nine months of 2020.

Total payment transactions more than doubled from 552.5 million to 1.2 billion over the same period.

Meanwhile, Shopify has seen many more entrepreneurs signing up onto its platform since the pandemic started.

Gross payment volumes (GPV), which is the amount of gross merchandise volume processed through Shopify Payments, surged from US$6.2 billion in the third quarter of 2019 to S$14 billion in the latest quarter.

And **Sea Ltd** (NYSE: SE), a digital entertainment, e-commerce and digital payments company, saw significant growth in its mobile wallet since the start of this year.

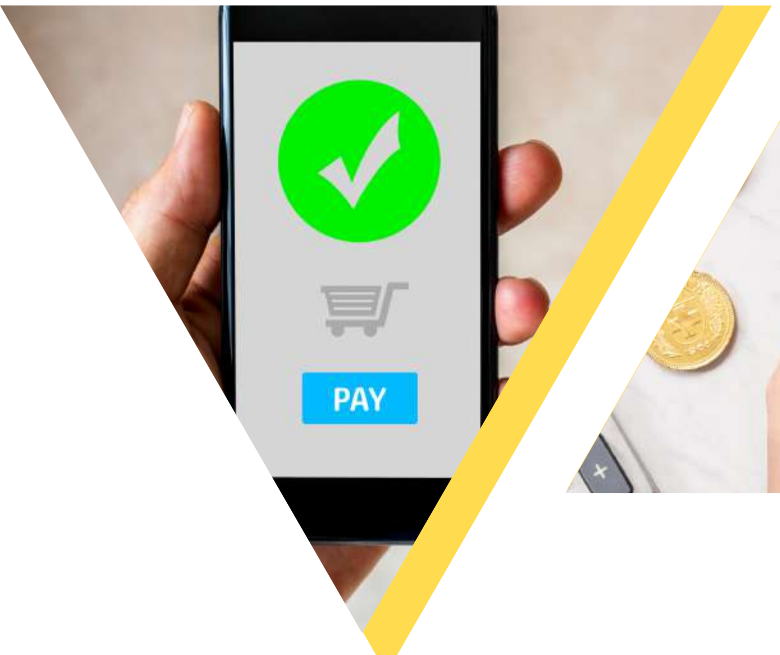
Total payment volume (TPV) more than doubled between its first quarter of 2020 to the third quarter, increasing from around US$1 billion to over US$2.1 billion.

There were more than 17.8 million quarterly paying users for Sea's mobile wallet service in the latest quarter, up from around 10 million in the first quarter.

The numbers above, which cover a wide range of regions and populations, help to show just how pervasive online payments has become.

The added convenience of being able to buy at the touch of a button or just a few clicks will encourage those who have switched over to digital payments to stay on in the future.

Hence, customers new to digital payment methods are set to remain "sticky" (i.e. loyal), implying that the rapid growth demonstrated by these various players is sustainable.



Stock 3: Paypal (NASDAQ: PYPL)

There's probably no other business that is more representative of digital payments than Paypal.

Paypal operates a worldwide online payments system that supports online money transfers and serves as a middleman between merchants and customers.

The strong point about Paypal is that its payment system is platform-agnostic, which means it can be used by almost any merchant or another platform without specialised software.

This fact makes it a very popular choice for vendors as a medium to facilitate money transfers.

Paypal has a service called Braintree that provides merchants with a wide range of payment options to be used such as credit and debit cards, Google Pay or Apple Pay, to name a few.

The company also offers a digital wallet service through its Venmo app, and the company is growing through bolt-on acquisitions to widen its suite of services.

Paypal's numbers have been mind-blowing this year thus far.

For its third-quarter 2020 earnings report, the digital payments specialist reported its strongest TPV and revenue growth in the company's history.

TPV surged by 38% year on year to US$247 billion, while revenue increased by 25% year on year to US$5.5 billion.

During the quarter, a total of 15.2 million net new active accounts were added, up 55% year on year.

This surge brings the total active accounts to 361 million, up 22% year on year, including around 28 million active merchant accounts.

The business also generated US$480 million of free cash flow for a free cash flow margin of around 9%.

Paypal has recently launched interest-free "buy now, pay later" (BNPL) instalments in the US and UK, tapping on the popularity of this new payment method to encourage higher adoption rates for online payments.

Its Venmo digital wallet has also incorporated personalised QR codes in partnership with Visa (NYSE: V) to enhance convenience for users who wish to split up transactions.

The company has also released retailer insights on consumer shopping and payment preferences.

More consumers are now shopping online compared to before the pandemic began, and 57% of them say that the availability of digital payment will impact their willingness to shop in their stores.

Put another way, if the customer does have his or her preferred payment option, a purchase will not be made at the physical store.

This statistic further bolsters the case for online payments and emphasizes its increasing importance in e-commerce in today's connected world.

Paypal's business was already growing before this crisis, but it now has the tailwinds from the pandemic to further boost its prospects.

With the increasing adoption of digital payments, the company should see its TPV, revenue and free cash flow continue its upward trend.

Get Smart: Investing in the future, for the future

As investors, we are investing for the future, and not the present or the past.

And we think the future looks much brighter now than it did when the pandemic started spreading around the world.

We hope that you've enjoyed this free report from The Smart Investor. We are here to help guide you on the path of financial freedom. The kind of freedom where you're truly in control of your finances, both free to enjoy your money and free from worrying about it.