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SG Weekly (8 July 2021 - 14 July 2021)

Market Moves

Singapore's GDP grew 14.3% in 2Q21. The strong data were measured against a low base last year. Output was still 0.9% below 2Q19 levels and 2% below 1Q21. The manufacturing sector remained the star (+18.5% yoy), due to robust global demand for semiconductor and semiconductor equipment. However, the sector contracted by 1.8% over 1Q. All sectors contracted over 1Q, with the exception of infocomm, finance & insurance and professional services (0.4% qoq), a result of mobility restrictions from mid-May to late June.

The Jobs Support Scheme covered a portion of many Singapore companies' staff costs in 2020. These have tapered off, except for the tourism and aviation sectors. Banks' loan moratoriums also tapered off at end-March 2021. 2H GDP growth is likely to soften, despite higher exports and a gradual resumption of construction activities. We expect the authorities to maintain its full-year forecast of 4-6%.

While 1H21 earnings reports due from mid-July are likely to beat, thanks to a weak 2Q last year, 2H earnings face challenges from a virus resurgence and renewed lockdowns in neighbouring countries. The latter account for most of Singapore's production and supply chain.

REITs will kick off the 1H earnings reports. Some of them have held back distributions in 2020,

Analysts' Notes

The Singapore Trade Data Exchange (SGTraDex), a new digital infrastructure for the shipping industry that was launched this week, is aimed at strengthening the financing integrity of trade flows, enhancing end-to-end visibility of container logistics flows, and digitalising the bunkering industry. It is expected to be fully rolled out in early 2022, and could unlock over S\$200 million in value for the supply chain in Singapore each year. Movement inefficiencies were prevalent even pre-pandemic, but has gotten worse with the increased consumer demand and trade activity. We believe the SGTraDex would benefit shipping players such as Samudera Shipping ([latest report](#)), which has been facing port congestions, and logistics and warehousing players like GKE Corporation ([latest report](#)), giving them more ability to plan ahead with higher visibility on cargo and warehousing spaces. (*Lim Li Jun Tracy*)

Pandemic stockpiling of necessities had subsided but manufacturers are raising inventory levels for just-in-case disruptions. We still favour logistics REITs. REITs with European assets could benefit from EU's demand boom. EU's June Composite PMI rose 2.1 pt to 59.2, the highest in 15 years. Manufacturing PMI was unchanged at 63.1, an all-time high.

Crude prices have crossed US\$70/bbl, raising optimism about a revival of the O&M industry. What's different this time is the difficulty of securing credit for fossil-fuel projects. Banks are reluctant to lend. Oil majors such as Exxon Mobil are facing pressure to step up renewable efforts and cut carbon footprints. Higher cost of funds is a disincentive to offshore drilling. Local O&M players have pivoted to providing transportation and engineering work for offshore wind and solar farms, a small but steady step towards shedding their reliance on the oil sector. SembMarine warned of a net loss in 1H21 of the same magnitude as FY2020 (net loss: S\$582.5m).

Macro Views

The Cyberspace Administration of China, in the tightening of foreign IPO rules, had said that any company with data on more than 1 million users must apply for cybersecurity approval before seeking overseas listings. This was done on grounds that such data and personal information could be exploited by foreign governments. Authorities are also more broadly pushing for companies to list domestically. The 1-million mark implies that almost all Chinese tech firms considering foreign IPO (eg. ByteDance and Lalamove) would have to undergo a cybersecurity review beforehand. Tencent's plan to merge Huya and DouYu, the top two videogame streaming sites, was blocked on antitrust grounds.

Company News

Mercurius Capital Investment Limited (BBG: MCI) proposed to acquire a chain of grocery and convenience stores in Malaysia under the Songmart brand. It will pay S\$36m via issuance of 200m new shares at S\$0.18 (current price: S\$0.079) over 3 years, subject to adjustment if profit targets are not met. Songmart recorded pretax profit of RM9.4m in FY20, and NTA of RM16.1m at Mar 21. The purchase is priced at ~12x FY20 PE and 6.9x P/B. Songmart has to meet net profit targets of RM15m and RM16.5m for FY22 and FY23. The new shares are 15.5% of existing share cap, but 31.9% of market cap.

Metal Component Engineering Limited (BBG: MCOM) had another round of placement of 14.5m new shares at S\$0.05526 to raise S\$0.8m.

commitment to keep to an easy monetary policy for the economy. The outsize increase was driven by increase in used vehicles, and in large part by the pricing rebound with a broader reopening of the economy. Household spending on merchandise is still elevated, fuelled by government stimulus, and increases in demand for services, such as hotel stays, car rentals, and airfares also contributed to the pressures.

China's GDP grew 7.8% yoy in 2Q. Output continued to grow qoq by 1.3%, exceeding the 0.6% qoq growth in 1Q. The trade data released shown exports growth accelerated to 32.2% in June (+6.7% mom), and imports climbed 36.7% (+5.3% mom), resulting in higher trade surplus of US\$51.5bn. This is in spite of a delay in shipment at Yantian port in southern China caused by virus resurgence. The authority pointed to slower growth for the rest of the year. The pandemic situation in ASEAN might divert some orders to China.

Singapore condo resale volume falls 12.6% in June. Resale prices were up 0.1% MoM (+6.8% yoy). This was in contrast with the HDB resale figures, which posted a 17.5% rise in volume in June, with prices increasing 0.9% MoM (+13.2% yoy). June also saw 19 resale flats transacted for at least \$1 million. Total number of such flats rose to 106 in 1H21, all of which in mature estates, compared to the 24 units in 1H20.

platform. MCE acquired an 85% stake in Gainhealth for up to S\$9.35m, subject to a third-party valuation. The first tranche of S\$4.25m was paid in cash (S\$3.8m) and new shares (13m at S\$0.037). Gainhealth was set up in Jun 2020.

IX Biopharma Limited (BBG: IXBIO) is exploring a spin-off of its pharmaceutical and medicinal cannabis business on HKEX to gain independent access to capital for drug development. 100%-owned Ligo Pharma Limited manufactures, R&D and sells pharmaceutical and medicinal cannabis products. IXBIO will focus on marketing and distribution of nutraceutical products under its brand entity.

Sim Leisure Group Ltd (BBG: SLGL) entered into an agreement to develop and manage the construction of an environmentally sustainable ESCAPE theme park at Cameron Highlands, Malaysia. SLGL will also be responsible for the operation and maintenance of the theme park for an initial term of 30 years. This new park will help to grow the Group's revenue stream and expand its "ESCAPE" brand in Malaysia.



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