SAC CAPITAL

SG Weekly (5 August 2021 - 11 August 2021)

Market Moves

The upward revision of Singapore's GDP to 6 to 7% suggests that 2021 will be a record year for output and beat 2019, even with uncertainties surrounding the regional economies. In contrast, Thailand BOT has again lowered its GDP forecast, to 0.7% in 2021 and 3.7% in 2022 (from 1.8% and 3.9% respectively). Same too for Indonesia, which lowered its 2021 outlook to 3.8% (from 4.6%).

The semiconductor sector had a home run in 2Q. HK- and China-listed SMIC booked higher revenue +21.8% qoq, and gross profit +61.9%, despite operating under the cloud of US trade sanctions. AEM secured S$103m investment from Temasek for future M&As. Grand Venture lifted 1H's net profit by 3.8x to S$8.5m, well exceed FY20's S$5.2m. Chip shortage that prompted higher capex spend by chipmakers are fuelling demand for semiconductor equipment, where its strength lies. Riverstone, which supplies gloves to cleanroom and healthcare needs, is stepping up cleanroom glove output to cater to stronger demand. This allows them to still enjoy higher average ASP relative to other glove makers.

Property developers saw improved cash flow with higher residential sales, albeit thinning margin from higher land and construction costs. New unsold units have dwindled to 19,384 units (end 2020: 24,296 units), or just under 2 years of annual sales (FY20: 9,982 units sold), spurring

Analysts' Notes

Roxy-Pacific: The Group posted a 19.6% yoy increase in revenue to S$141.2m in 1HFY21, up from S$118.1m a year ago, largely with the revenue growth from the property development segment (+27.4%). PATMI was S$5.9m, up 2.1x from S$2.8m a year ago. 2 upcoming development projects will see 197 new residential units, which the Group plan to launch for sale from 2H, at Jalan Molek/Guillemard and Institution Hill. We expect the current low supply of private residential property in the market to continue to be a driver of property sale prices. However, we see high construction costs and delays in construction to continue, at least in the near-term, with the worsening situation in key manpower supply areas like Malaysia and India. (Link) *(Lim Li Jun Tracy)*

Grand Venture Technology: Revenue almost doubled in 1H, from S$26.9m to S$53.5m. This made up 87.2% of total FY20 revenue, on the back of growth of all 3 segments: semiconductor (+72.6% to S$38.9m), life sciences (+15.4% to S$8.3m) and electronics, medical and others (+12.0% to S$6.4m). The Penang factory bought in March is expected to add ~20% to total capacity, gradually from 4Q if renovations complete as expected. GVT is expanding its revenue streams to develop in-house competencies in advanced materials (specifically, quartz and ceramic). We expect strong demand in all segments will continue, with the global semiconductor super cycle, higher demand in the rein-in the 3.0% qoq increase in HDB resale prices. This bodes well for the construction material suppliers and property agencies.

China is sealing the country's borders and imposed strict lockdowns again to fight virus resurgence. With shocks from floods and heavy rainfall, Q3 industrial production and consumption are likely to be depressed. Manufacturing PMI slide by 0.5ppt to 50.4 in July. PPI rose 9% in July, up 0.2ppt over Jun, possibly reflecting higher material input costs. This will eat into margins, if the increase cannot be passed through to consumers. With continued regulatory tightening, China's growth recovery in Q3 is likely to slow, exerting an overall impact on the global economy, and for Singapore companies selling to the Chinese markets.

medical sector. HOLD at TP S$1.30. (Link) *(Lim Li Jun Tracy)*

Choo Chiang: 1H21 NPAT of S$4.4m was a record, building on higher ASP and demand for home improvements. ASP enjoyed a lift from higher copper prices (YTD +30%). Demand for electrical installations and components are driven by: 1) WFH and high home sales have lifted demand for home renovations; 2) Office downsizing and relocation to lower-cost. Gross margin edged higher to 29.8%. It generates high ROIC of 27% and ROE of 17.4% despite net cash of S$14.7m (S$0.071/sh), and investment property of S$13m yielding low rental. It trades at book value of S$0.24 and annualized dividend yield of 5.8%. *(Peggy Mak)*

Macro Views

SG GDP was revised marginally from earlier estimate to 14.7% yoy in Q2, 1.8% weaker than Q1, and 0.6% below Q2 2019. The official full year estimate was raised to 6 to 7% (from 4 to 6%). This implies that 2021 GDP could come in 0.3% to 1.2% higher than 2019, which was a record. The bullish outlook is backed by strong manufacturing (+17.7% yoy) which accounts for 23% of output. Progressive re-opening of the economy and lifting of border controls in 2H are likely to rejuvenate the services producing industries which contribute to 62% of GDP.

SG NODX rose 10.1% in Q2, higher than the 9.7% rise in Q1. Merchandise trade jumped by 27.3%. Overall 1H NODX rose 9.9%, while merchandise trade was up 15.3% in the period. Mainland China, Hong Kong and Taiwan were key markets for this growth, which more than offset the declines in shipments to United States, Japan and the European Union. Almost a quarter of NODX was made up by the electronics segment, which rose 15.7%. Singapore's total

Company News

Enviro-Hub Holdings Ltd (BBG: ENVH) posted 19.6% yoy increase in revenue to S$17.7m for 1H21, mainly due to an increase in sales in its recycling business. It also recorded an earnings turnaround in the same period, from a loss of S$2.0m in 1H20 to a net profit of S$1.7m. Newly-acquired 25% stake in Pastel Glove contributed S$0.17m. Meanwhile, Enviro-Hub has proposed to acquire the remaining stake in Pastel Glove. Disposal of S$60mil worth of investment properties had improved the group's net gearing ratio to 62.4%, further strengthening its balance sheet.

Memiontec Holdings Ltd (BBG: MHL) reported a net profit of S$0.5m for 1H21, a 23x jump from 1H20. 1H revenue also saw an 86.1% yoy increase to S$26.9m, contributed mainly by turnkey projects. Its balance sheet had further strengthened with an Increase of cash balance to S$15.2m. As at 30 June 2021, Memiontec had an orderbook of S$81.6m, with almost half of the orders coming from Indonesia.

SG Jun retail sales (+25.8% yoy) fell 1.5% from May, impacted by further tightening of movements from mid-May when new virus clusters emerged. When compared with Jun 2019, only supermarkets, minimarts, furniture and household equipment, and computer and telecom equipment posted gains. All other segments have yet to recover, with department stores the worst hit (-50.8%).

SG condominium resale prices rose 1% mom in July (June: +0.2%), despite tightening of Covid measures in the latter half of the month. Based on flash figures, 1,817 units were resold last month, up 22.5% from 1,483 units in June. Condo resale prices rose marginally (+0.1% in the core central region and +0.3% in the city fringes).

entered into a purchase contract with China National Biotec Group to purchase the Sinopharm COVID-19 vaccine for use in Singapore. Another subsidiary Medic Surgical Private Limited had been granted approval by HSA through Special Access Route scheme to import and supply the vaccine locally. The SAR approval is valid for a period of 6 months, renewable, from 6 July. Clearbridge is also exploring opportunities for the vaccine in other markets.

Koh Brothers Group Limited (BBG: KOH) posted PAT of S$2.6m in 1H21, a major earnings turnaround from loss of S$17.8m for 1H20. This was aided by a 35% jump in revenue to S$141.0m which brought in S$8.2m of gross profit as compared to prior year gross losses. While the results reflect a gradual recovery of the construction sector, the Group expects challenges ahead, due to competition, supply chain disruptions, manpower shortages and higher construction materials costs. As at June 30, Koh Brothers had a net gearing ratio of 0.71x.