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SG Weekly (26 August 2021 - 1 September 2021)

Market Moves

According to Lianhe Zaobao, IHS Markit Singapore manufacturing PMI slide to 44.3 in August, from 56.3 in July, a sharp contraction that is also seen in other ASEAN countries - Myanmar (36.5), Vietnam (40.2), the Philippines (46.4), Thailand (48.3), Indonesia (43.7) and Malaysia (43.4). The disruption faced by the manufacturers include port congestion, COVID related factory closures and component shortage. We think a higher vaccination rate will allow factory to resume operations by Q4 in Malaysia and early 2022 in the other countries. The manufacturing companies will miss out on the seasonally strong Q3 deliveries for Christmas demand.

The authority roll out the Progressive Wage Model, Singapore's version of minimum wages, to cover 234,000 more local employees in the services sector by 2023. And all local employees must be paid at least S\$1,400 if the company were to recruit foreign workers. We read this as exuding confidence of a post-COVID economic recovery as well as an acute shortage of manpower. The higher wage bill might lead to higher prices for goods and services. It will also push for accelerated automation. While negative for corporates' margins in the near term, it is nevertheless positive for consumption spending.

The development charge rates are revised from 1 Sep 2021 at URA's half-yearly review: average for non-landed residential +10.9% (Mar 2021: +0.3%), landed residential +6.3% (Mar: +1.5%)

Analysts' Notes

Grand Venture Technology (HOLD TP S\$1.30) proposed a transfer of their listing status from the SGX-ST Catalist to the Mainboard. At the same time, they are intending to undertake a placement to increase its share trading liquidity, public float and shareholder count. Their previous placement of shares in March raised net proceeds of S\$23.5m, a portion of which was used to purchase a new factory in Penang. Given the stretch in utilization rates and capacity with the strong semiconductor demand, we believe that a new round of placement can further boost capacity with funds for capex spend and expansion. **(Latest report)** *(Lim Li Jun Tracy)*

BRC Asia (HOLD TP S\$1.64): Issued 31m new shares at S\$1.48 to HL Asia to raise S\$45.9m. Together with shares from other minority shareholders, HL Asia will own 20% in BRC. Net debt of BRC will be lowered from 1.12x to 0.83x after the placement, and Esteel still retains a 61.2% stake. HL Asia is the second largest RMC supplier in Singapore. Together, the two companies command a significant share of building materials supply for Singapore's construction sector. The sector, however, is still plagued by labour shortage, material price inflation, and project delays due to virus control measures. *(Peggy Mak)*

OTS (BUY TP S\$0.40): FY21 (Jun) net profit would have grown 9.6% yoy after stripping out non-recurring government grants and IPO

transactions, is a two-edged sword. It raises the cost of property development and en-bloc projects, which might deter purchase decision. However, it also indirectly lifts the value of existing units, and might cause panic buying for fear of further price increase. The jury is still out on whether there will be more cooling measures. Recalled that the development charge for non-landed residential was raised by 13.8% on 1 Sep 2017 and 22.8% on 1 Mar 2018. The property cooling measures arrived in July 2018.

believe the channel inventory has normalized and expect orders to recover in FY22 (Jun). Other growth drivers include 1) regional sales push into Malaysia, Indonesia and the Philippines; 2) launch of plant-based protein alternative products in early 2022; and 3) distribution of third-party sales products. Despite its smaller size, latest ROIC of 20.1% is comparable with peers (Hormel 18.3%, Shanghai Maling 23.3%, Danish Crown 7.1%). **(Latest Report)** (Peggy Mak)

UG Healthcare: Glove price peaked in Mar quarter and began to fall thereafter (steeper for nitrile gloves), though the pace of decline has slowed (we estimate 10-15% qoq). Distributors are stocking as they expect further price reduction with more supply and higher vaccination rate. UG is better placed due to product mix (latex/nitrile gloves: 44%/52% of sales), own branded products, an entrenched distribution network, and presence in the emerging markets. Q4 2021 (Jun) performance (revenue -8.5% qoq; net profit -14.1% qoq) fared better than peers. FY22 will add 1.7bn pc/annum capacity (~37%), which, we believe, can be absorbed by its downstream network. (Peggy Mak)

ISOTeam (recommendation under review): Escalating costs (material and labour), project delay, low productivity, and impairment for contract assets and goodwill in its investment in Pure Group dealt a heavy blow to earnings for a second year. One positive is they undertake mainly public sector jobs where collections are more assured. Orderbook of S\$165m might not take it to profitability if cost inflation is not addressed, an issue faced across the construction sector. Net gearing rose to 0.9x due to smaller net assets. (Peggy Mak)

Macro Views

China's August manufacturing PMI fell to

Company News

Alpha DX Group Limited (BBG: ALEN)

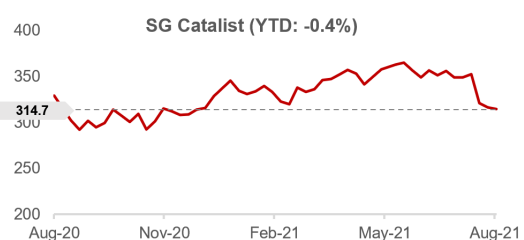
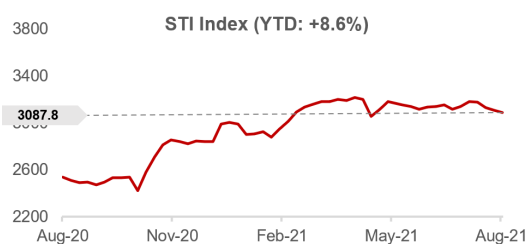
With the increasing subset of sectors coming under pressure from the crackdown, more sectors could be facing easing/slowdown in the last 4 months of the year. Covid restrictions dropped services sector to a contraction. The non-manufacturing PMI in August was 47.5, down from July's 53.3.

China's new data security law took effect from this Wednesday, and included tightening control over cross-border data transfer and stipulating fines for offences such as leaks and failure to identify buyers and sellers. Organisations and individuals are not allowed to pass information to overseas authorities, without permission from Beijing's authorities. The legislation also identifies a new "core" category of data "related to national security, the lifeline of the national economy, major aspects of the people's livelihood, and major public interests", which will be subject to stricter scrutiny.

Japan's industrial output shrank 1.5% in July, dragged down by lower car production, due to a spike in the Delta variant cases which forced lockdowns, piling on to auto manufacturer's woes which was already seeing a squeeze in operations and margins with the global chip shortage. July's output level was below pre-pandemic levels. Toyota Motor said it would cut global auto output by 40% in September to about 500,000 units, lowest since May 2020, and cited Vietnam and Malaysia COVID lockdowns as its biggest supply constraints.

and implementation of next gen learning platform for Asnaro University of Uzbekistan. This is a joint venture formed between the Ministry of Higher and Secondary-specialised education of Uzbekistan to increase accessibility to high quality tertiary education for its citizens. Currently there is an acute shortage of Higher education institutions in the country. Under the agreement, ZioNext is expected to develop digital learning platform, tools and applications, digitalise all program contents and implement a learning management system for AUU. ZioNext will also provide training and coaching for its students and lecturers.

Memiontec Holdings Ltd (BBG: MHL) announced the Group had been awarded 2 new tenders with a total value of S\$12.7m by PUB. This brings the Group's order book to approximately S\$91.6m. The first tender requires Memiontec to replace mechanical and electrical equipment at Jurong Island Sewage Treatment Plants No.1 and 2, scheduled to start in September 2021 and complete in 24 months. The second tender involves the supply and delivery of activated carbon to PUB for its water reclamation network, starting August 2021 and to be completed in 27 months. With a number of significant public tenders relating to Membrane processes and Mechanical works anticipated to release in the next 2 years, the Group believes it is well positioned to secure those tenders with its synergistic business model as well as the desired licenses and ISO certification.



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