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SG Weekly (9 September 2021 - 15 September 2021)

Market Moves

All eyes are on China as analysts try to read the tea leaves from the regulatory clampdown to President Xi's decline of a physical meeting with US President Biden. The clampdown, which started with the internet sector, has widened to other sectors such as after school tuition, property, electric vehicles, and Macau. Couple with a zero-tolerance approach towards COVID and higher input costs, this will impact corporates' 2H earnings growth and hold back capex plans.

Macau begins a 45-day public consultation on the gaming industry, ahead of the expiry of casino licences in June 2022. Among the topics under review are the number and tenure of the licences and heightened scrutiny on capital management and daily operations. Although this might not affect the renewal of the existing six licences, the clampdown on cross-border flows of funds for gambling have intensified. Affected sectors include gaming stocks across the region and properties in Cambodia and the Philippines (which are alternative gambling hotspots) that target Chinese visitors and buyers.

Bloomberg reported that Temasek and GIC would tap on the new SPAC framework to deploy funds into Singapore companies and regional mid-sized businesses. We think the two funds could take on two roles: 1) as the sponsors for SPACs; and 2) inject investee companies into the SPACs. We think their involvement will attract innovative

Analysts' Notes

Malaysia's windfall tax. Glove makers and Malaysia-listed commodity stocks were sold down on speculations that the Malaysian government is mulling a windfall tax for sectors that enjoyed exceptional gains. In Malaysia's Parliament Order Paper published on 14 Sep, there was mention of a second reading of the Windfall Profit Levy (Amendment) Bill 2020. The first reading was conducted in Dec 2020.

Windfall tax is not new. CPO producers have been paying a 1.5%-3% levy when ASP exceeds RM2500/ton since Jan 2020. But a windfall tax on glove makers is ill-timed, in our view. Healthcare gloves ASPs are on a decline from the peak in March 2021. Distributors are no longer hoarding stocks in anticipation of falling demand with higher vaccination rate. ASP may return to pre-pandemic level in 4Q2021 estimated at ~50-60% below peak. In addition, production was halted for 4-6 weeks in Jul/Aug due to COVID lockdowns, pointing to a weaker 2H over 1H. Among the glove makers, Riverstone is more resilient with ~20-25% of revenue from cleanroom gloves, where prices hold up better amid higher demand for electronic devices. UG sells mainly house branded products, hence enjoys both manufacturing and distribution margins.

Also along the same line, Malaysian Finance Ministry instructed banks to exempt interest payments in 4Q 2021 for loans under moratorium extended to borrowers in the bottom 50% income

from banks and REITs.

CDL finally removed the millstone around its neck as it shed its stake and relinquished all liabilities in insolvent Sincere Property for US\$1. The S\$1.8b exposure has been written down to S\$117m at 30 June 2021. CDL also raised its effective stake in Shenzhen Tech Park by ~10% to 65%. SPH also obtained shareholders' approval to hive off the media business (together with ~S\$80m worth of assets), clearing the way for Keppel to launch an offer for SPH.

SembMarine's 18.8bn rights shares (issued at S\$0.08) are expected to commence trading on 22 Sep. How many of these will be added to the free float will depend on the % taken up by minority holders and % allocated to Temasek and DBS (who underwrite 67% and 33% respectively).

Macro Views

US inflation cooled slightly in August to 5.3% yoy (July: 5.4%). Excluding energy and food, core inflation edged up 0.1% mom (July: +1.3%), the smallest gain since Feb 2021. The softer price increase was led by the tumble in prices of airline tickets (-9.1%) and used cars (-1.5% mom), and lodging away from home (-2.9%) with more people returning to office. Other than energy (+2.0% mom), other items had smaller mom price gains.

China's August retail sales growth slowed to 2.5% yoy (July: +8.5%), the weakest rise since

borrowers may be attracted to obtain loans at zero interest for 3 months. We see small impact on the Singapore banks. Malaysia accounts for <10% of OCBC and UOB's loans and focus on the mass affluent. *(Peggy Mak)*

REITS. The Parliament passed a bill that mandates private commercial landlords to give a 2-week rental waiver to qualified SMEs and non-profit organisations, to cushion the impact of P2HA. To qualify, tenants must have suffered a >20% drop in revenue and booked FY2019 annual revenue of less than S\$100m, amongst others. Landlords may seek exemption if rental is the main source of income and the asset value is below S\$60,000.

The retail assets with a bigger pool of smaller tenants in apparel and fashion are likely to be hardest hit. The food service operators in malls have largely pivoted to online delivery and might not face a steep decline in revenue during the phase 2 lockdown. Still we are cautious on the retail and office REITs with assets in Singapore as we believe the hybrid work model is likely to be the default. REITs with overseas assets might fare better with the economy re-opening in US and Europe. *(Lam Wang Kwan)*

Company News

Medi Lifestyle (BBG: IEV) launched a genetic screening service under brand name Qodify in Malaysia and Singapore to provide genetic analysis, which could indicate predisposition to inherited disease. Global genetic testing market is projected to grow 11.6% annually to reach US\$31.9b by 2027, underpin by availability of cost-effective genetic screening services and growing health awareness and affluence.

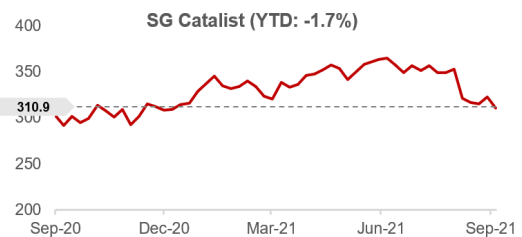
VCPlus (BBG: ACHR) entered into an agreement with HydraX Pte Ltd to license its digital asset custody technology solution for

appliances (-5.0%) and automotive (-7.4%), pointing to cut back in consumption spending. The clampdown on after school tuition and gaming might have some impact. Building materials rose 13.5% (July: +11.6%), possibly due to lower output. This is reflected in the slower factory output. August growth slowed to 5.3% yoy (July: +6.4%), the lowest since July 2020 as COVID curbs, component shortages and measures to control pollution. Production of cement fell 5.2% (July: - 6.6%).

compliant and blockchain-ready capital markets infrastructure solutions, which support interoperability between traditional and digital assets. VCPlus will provide custodian services for digital assets. VCPlus will pay licence fee via S\$0.3m worth of new shares, and the remaining S\$0.3m in cash or new shares.

Reclaims Global (BBG: RGL) turned in net profit of S\$3.4m in 1H22 (July), well exceeded FY21 (Jan)'s S\$2.2m. The significant increase came from a low base and is attributed to the resumption of construction activities as COVID-19 related restrictions eased. Cost of materials and services increased in line with higher business activities level. It maintained a net cash position of S\$10.5m. While the pandemic remains a threat, management believes that RGL is poised to grow as the Government pushes for development of affordable housing, transport and renewable energy infrastructure.

Livingstone Health (BBG: LHH) is granted the approval to import and supply the Sinovac Vaccine in Singapore via the Special Access Route by the Health Sciences Authority and the Ministry of Health. LHH will procure the vaccine for its chain of 4 clinics as well as 13 other private healthcare institutions in Singapore. As of 14 Sep, 81% of the Singapore population has been fully vaccinated, and 84% has received at least one dose. From 15 Sep, Singapore also kicked off the vaccine booster programme for seniors above 60 years old.



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