SAC CAPITAL

SG Weekly (7 October 2021 - 13 October 2021)

Market Moves

SG Q3 GDP grew 6.5% yoy (Q2: +15.2%, revised from +14.7%) and +0.8% qoq (Q2: -1.4%). The flash estimate was derived from data in July & August. Trade, transportation and storage fell 1.3% qoq (Q2: -1.0%). As Malaysia and Vietnam partially lifted COVID curbs at manufacturing plants, we think there is room for Q3 growth to be revised upwards. Construction (Q3: -0.4% qoq, Q2: -2.4%) remains a laggard despite +57.9% yoy over a very low base in Q3 last year. The sector faces a double whammy of labour shortage and spiralling material prices. The manufacturing sector was flat over Q2 (Q2: -2.1%). Semiconductor and equipment manufacturing plants are humming along to meet the shortfall in chip supply globally. Our ground checks indicated that the momentum will continue into Q4.

MAS tightens S$ policy which raises the strength of S$, to cope with rising cost pressures. Unlike other countries, Singapore uses the exchange rate instead of interest rates to counter inflation risks. MAS last changed its policy parameters in end-Mar 2020, when it eased its monetary policy by both flattening the slope and lowered the mid-point of the band. Although the economy is still below pre-COVID levels, the tightening suggests that the authority is confident of output growth ahead.

Singapore further opened its border to 9 countries - now totalling 11 - mainly the US and

Analysts' Notes

Singapore new private home sales continued to decline in September, dropping 32.3% from August's 1,215 units to 823 units, based on estimates. Yoy, estimates are 38.1% lower than the 1,329 new private homes sold in September 2020. Top-selling projects last month (including ECs) were sold at median prices ranging from S$1,125 psf to S$2,729 psf.

Effects of the lower supply of land bank, higher construction costs and longer delays are kicking in, as seen from the fewer launches, although it was also partly attributable to the seventh lunar month which lasted until September 6. Pent-up demand seems to be easing, partly due to the price increases, after the continued rise in sales volume and prices in the last one year. We see that this will affect property agencies like Propnex (link), and we maintain our caution on the lower transaction volumes expected next year. *(Lim Li Jun Tracy)*

BRC Asia (HOLD TP:S$1.64) To cope with tight energy supply, China has ordered steel mills in Beijing, Tianjin and Hebei province to trim output during the upcoming heating season starting from mid-Nov to mid-Mar. Steel mills must also meet annual output reduction targets by year-end, and cut crude steel production by 30% yoy from Jan to mid Mar 2022. Lower volume is likely to drive prices higher. As BRC places orders on confirmed contracts, the higher prices are expected to be passed through. However, lower would benefit the aviation, hospitality and tourism sectors. A point to note is SIA's current market cap of S$16.5bn is doubled that of pre-COVID end Mar 2019's level of S$8.2bn. If more countries open up their borders, the additional flights will add belly-space for cargoes and alleviate supply chain constraints. More aircraft checks would also revive the MRO sector. Telcos would also gain from return of roaming revenue.

The higher energy price has claimed one casualty. iSwitch Energy, an independent electricity retailer with a 13.1% residential market share, will cease operations in Nov. YTD, price of natural gas, which generates 95% of Singapore's energy needs, is 2.3x higher. On the other hand, the regulated tariff charged by SP Group to consumers, which forms the cap on energy retail price, has been raised by 16.2% from 22.21ct/kWh in Q1 2021 to 25.8ct/kWh in Q4 2021. Keppel and Sembcorp Ind also operate in this business, but have better margin cushion as they operate power plants. We think higher coal prices might have an impact on Sembcorp Ind's overseas IPP contracts, if they are unable to adjust tariffs for supply to the grid.

BRC Asia's parent, Esteel Enterprise Pte Ltd is acquiring a 100% stake in Antara Steel Mills Sdn Bhd for US$122m (FYJun21 PE 9.0x, P/B 4.8x). Antara produces hot briquetted iron (a supplement for pig iron for use in steel production) in Malaysia for the export market. Cutbacks in output and curbs on new investments in China to meet emission targets, and higher demand for metals are likely to drive investors' interests in metal production plants outside China. The only metal miner and processor listed on SGX is Malaysia Smelting Corp Bhd (FY21E annualized P/E 21.4x, P/B 2.3x). *(Peggy Mak)*

Macro Views

China's Sep exports rose 28.1% yoy (Aug: +25.6%) to a record US$306bn, propelled by higher mineral prices. Exports were higher for refined products (+4.78%), aluminium (+15.4%), steel (+28.5%) and rare earth (+95.7%). Biggest trade gains were with the US (+30.6%) and EU (+28.6%).

Imports also reached a record of US$239bn, up 17.6% yoy, but eased off from Aug's 33.1%, led by natural gas (+22.6%) and coal (+76.1%), underscoring the country's energy needs. It is noteworthy that imports fell for iron ore (-11.9%), steel products (-56.5%) and copper (-43.8%), pointing to slower construction and

Company News

Fortress Minerals Limited (BBG: FMIL) entered into a 15-month offtake agreement with a 3rd party steel mill in Malaysia. Under the agreement, FRPL will deliver ~375,000 wet metric tonnes of iron ore over a 15-month period commencing 11 Oct 2021.

Metech International Limited (BBG: CENR) entered into a 51:49 JV with X Diamond Capital Pte Ltd to set up a plant in Singapore to produce and sell lab-grown diamonds. No details were disclosed on the investment costs and capex. The JV has entered into supply contracts with Maitri Diamond, Lucino Diamond, KDT Diamond Co., Ltd and Guangzhou Diamond Exchange, coal producing area in China, cut domestic output.

China's Sep Producer Price Index rose 10.7% yoy (Aug: 9.5%), reflecting higher input cost which could exert margin pressure for manufacturers that could not passed it on. All in, we expect China's GDP growth to slow to 5% in Q3 and 3.9% in Q4 (Q2: +7.9%). China's Q3 GDP will be announced on 18 Oct.

(Tianjin) to assess and certify its products for sale in China. In May 2021, Sarine Technologies also announced a tie-up with Constell Group to produce lab-grown diamonds.