This is SAC's weekly newsletter for 27 July 2022. Thank you for reading.

Analysts' Notes

HDB and URA Q2 statistics | HDB resale prices increased 2.8% qoq while the number of units transacted declined by 1.7% qoq to 6,819 units. With 31,325 units set to MOP across 2022, we expect the rate of resale price increases to slow in the coming 3 quarters. However, in the long run, prices are expected to continue increasing, as the number of resale flats set to MOP in 2023 and 2024 are 15,748 and 13,093 respectively, which is cumulatively lower than the 2022 quota.

Private residential property prices showed a qoq increase across all regions in Singapore, and this was especially evident in the RCR region (6.4%). Number of units transacted in 2022 also showed a notable qoq improvement of 27.5%. We think that the transaction volume of private residential units will increase in 2H 2022 as HDB resale residents opt for a housing upgrade. However, we do not think the prices will continue its upward trajectory for much longer due to the robust supply pipeline of private residential properties, with 24,589 units set to achieve TOP by the end of 2023. This should alleviate the current supply crunch of unsold residential units, which will ease the upward pressure on prices. The US Fed has raised rates further by 75 basis points this week, which will likely be followed by a corresponding bank mortgage rate hike in Singapore. Going forward, this could deter buyers from purchasing private residential properties and divert demand to either the HDB resale market or rental market, which may cause prices to decline in the coming quarters.

Private residential rentals have shown steep quarter on quarter increases of 7.7%, 5.9%, and 7.7% respectively for the CCR, RCR and OCR. We think that this increase could have been driven by the increasing cost of owning a property, as well as the demand for temporary accommodation as construction for BTO and private residential projects are in progress. As property prices continue to stay elevated, we expect the demand for rental to continue increasing, and rental rates to rise as a result. With the border reopening in Q2, the inflow of expatriates could have also fuelled the demand further, leading to the sharp increase. *(Christopher Ong)*

Aztech Global <2Q Earnings Call> | Aztech posted strong 2Q results in the midst of a challenging supply chain environment. 2Q revenue grew 77% yoy and 85% qoq to S$237m, sustained by strong demand and production level while net profit of S$29m jumped 79% yoy and more than doubled its 1Q's performance, largely due to margin improvement. 2Q PBT margin was 15%. (vs 2Q21: 14%, 1Q22: 12%). This lifted its 1H22 result. 1H revenue of S$365m and net profit of S$43m were up 46% yoy.

While Aztech was not spared from component shortages and disruption from China's COVID measures, the Group managed to maintain its production level through finding alternative replacement parts, redesigning of products and effective collaboration with its vendors and suppliers for input materials. The Group also continuously optimises its operations which helps to bring up the productivity level. These factors largely explained the expansion in 2Q margins.

The Group currently has a total orderbook of S$827m. The management has not faced any cancellation of orders. It expects to fulfill S$450m of orders in 2H22 which translates to a 20% growth yoy and 23% growth hoh. We believe the Group is able to achieve its target as 1) it has secured most of its key components for 2H orders, 2) material shortage is easing and 3) Proactive operations management which has proven successful in 2Q to keep up with order delivery and protect its margins. Downside risk comes from major disruption to its production in its Dong Guan manufacturing facility due to China's strict COVID policy.

The Group has further strengthened its financial position as net cash increased to S$232m. *(Lim Shu Rong)*

IFAST <2Q22 Earnings Call> | IFast reported 2Q22 net loss of S$2.7m, after S$5.2m charge upon the exit of onshore platform business at 41.5%-owned Indian operations. Asset under administration rose 0.8 yoy, but fell 5.1% qoq to S$17.7b, in spite of positive net inflows of S$0.6b, due to lower asset value. Expenses jumped 50% yoy (+22.3% if exclude the bank) with higher staff costs and expenses incurred for the HK e-Pension project, which will contribute from 3Q23. Management guided that it will return to profitability in subsequent quarters, though profit for FY22 will decline substantially, due to the one-off charge, projected S$4m loss for iFast Global Bank acquired in late 2021, weak 1H and higher operating costs. HK E-Pension project will drive earnings growth from 2023. *(Peggy Mak)*

Hutchison Port Holdings Trust <1H22 Earnings Call> | 1H22 revenue rose 8.0% to HK$6.5b on flat throughput volume of 11.69m TEUs. While Shenzhen YICT port saw 7% higher throughput, those at HK ports fell 7%. Easing of port congestion has also reduced storage income at the ports. Net profit fell 6.8% to HK$716m due to higher COVID-related costs and expiry of PRC preferential tax status.

HK import/export cargos handled declined in line with fall in HK's output and consumption. For trans-shipment cargoes, HK ports compete with Busan, Singapore and Kaoshiung ports. YICT, on the other hand, enjoyed higher export volume in 1H. 3Q is traditionally the peak manufacturing season, while 4Q will be dependent on the inflationary impact on demand outlook. Management guided continued volume downtrend for HK, and possibly flat to 5% growth for Shenzhen depending on the US and Europe consumption demand.

HPHT's operation is highly cash generative. After annual capex of HK$0.5b, we estimate FY22E FCF/share of HK$0.63 or P/FCF of 3x. It has been paring down debt. Net gearing is 0.27x on mostly fixed rates, at average 2.5%. Annual DPU guidance is at least HK$0.145, or yield of 7.7%. *(Peggy Mak)*

AIMS APAC REIT <1Q23 Earnings Call> | 1Q revenue and NPI rose 29.8% and 34.3% yoy, mainly due to the added contributions of its new Woolworths Headquarters, acquired in November 2021. DPU rose 1.3% yoy to 2.28 cents, translating into annualised DPU yield of 6.56%. The lower DPU increase was due to the management's decision of retaining capital for its AEI plans and future value accretive acquisitions. The REIT is shielded from rising energy costs, as it currently has in place triple net leases for its Australian properties, and has finalised the review of utility contracts with its Singaporean tenants. It reported a higher NPI margin yoy of 75.03% (1QFY22: 72.55%).

Rental reversion of +9.5% was driven mainly by warehouse segment. With the bulk of lease expiring in FY2023 and FY2024 being warehouse tenants, we expect rental reversions to remain positive going forward, but it may decrease due to the abundance of supply of industrial space in 2022. With increasing interest rates, the cost of capital as well as cap rates look set to increase going forward. We expect a downward revaluation of the REIT's AUM going forward, with the decrease being cushioned partially by increased rental rates. *(Christopher Ong)*

SLB Development <FY22 Earnings Release> | FY22 (May) net earnings rose 96.5% to S$26.2m with earnings from 51%-owned industrial project INSPACE. Associates' contributions rose 182% to S$19.3m as residential projects at 20%-owned Riverfront Residences and 20%-owned Affinity @Serangoon were fully sold. SLB also booked higher rental income (~S$2.3m) from Thye Hong Building. Net gearing improved to 0.5x. We estimate cash inflow of about S$130m from the property development associates in FY2023/24.

SLB is building landbank with a 15% stake in an en-bloc freehold project Euro-Asia Apartments for S$33.3m. This translates to land cost of S$1,313 psf ppr. This is after taking a 10% stake in Peace Mansion in Dec 2021 at land cost ~S$1,385 psf ppr. Its other investment properties are industrial building Thye Hong Centre in Singapore and a 9-10% stake in Gaobeidian in Hebei Province, PRC. It also building recurring income from investment in property management platforms, joint-investment in income-generating assets (such as co-living with Weave Living), commercial buildings in Singapore and Australia CBD. SLB trades at 3.8x FY22 PE and 0.5x P/B. *(Peggy Mak)*