This is SAC weekly newsletter for 8 Jun 2022. Thank you for reading.

Analysts' Notes

Advancer Global | Employment services is expected to pick up as 1) more people look for foreign domestic helpers as they return to office and 2) overall hiring costs coming down in the absence of quarantine requirement. Building management and security services continue to face tighten margin from rising manpower costs, which will increase 3% in 2022. Advancer is finding it hard to pass on the higher costs as customers are not willing to pay higher prices. We project Advancer to remain in a net loss position for the next two years. Share price is currently supported by net cash of S$0.096/share (74% of share price). TP is currently under review. *(Lam Wang Kwan)*

Top Glove | turned in a marginal operating loss of RM3m in 3Q22 (ended May), weighed down by low capacity utilisation (50%-60%), decline in glove ASP and rise in input costs. Revenue rose 1% qoq with 6% volume increase. ASP fell 5% qoq (2Q: -20% qoq). While glove manufacturers have cut back on capacity expansion and utilisation, the price pressure comes from intense competition from Chinese manufacturers and dumping by glove makers looking to exit the business. We expect this to last till end August, with a smaller ASP decline of 2-3% qoq in 4Q22. On the cost front, besides higher minimum wages of RM1,500 from May 2022, higher energy prices and latex prices, and lower output have pushed up unit production cost. The cost pressure will remain in 4Q, save for a possible easing of latex prices.
The current industry dynamics favours the glove distributors. UG Healthcare could enjoy an expansion in distribution margin for its house brand products which are both produced inhouse and outsourced. Riverstone's product mix include cleanroom gloves, which are more insulated from the vagaries of the glove market. *(Peggy Mak)*

US consumer spending | US new home sales fell 17% mom in April (Mar: -10.5% mom) to 591,000 annual rate, the slowest pace since April 2020. Higher mortgage rates are reducing affordability. Sales are 30% lower in the first four months of 2022. This would have a knock-on effect for demand for home furnishing and appliances. Williams Sonoma, which posted 8.1% 1Q22 revenue growth, has guided for a mid to high single-digit revenue growth for FY23E, a sharp deceleration from FY22's +21.6%. Similarly, Home Depot expects a 3% increase in sales for FY22E, after +14.4% in FY21. Carter's, an apparel brand, recorded a -0.8% decline in 1Q22 revenue (FY21: +15.3%). Singapore companies with substantial exposure to US retail market include LY Corp, Koda and KTMG. In our earnings estimates for Koda, we projected FY22E revenue to decline by 8.2%. *(Lim Shu Rong)*

Kim Heng | Kim Heng's second largest shareholder, Credence Capital sold all its 17.7% stake (~125m shares) to Hildrics Capital at S$0.105/share. This priced the Group at FY21 P/B of 1.5x and EV/EBITDA of

PSC Corporation | is acquiring a 100% stake in two companies for S$95.1m - Novel Food Manufacturing Co Pte Ltd, which produces food products such as bean curd, soy milk, vegetarian meat and Japanese noodles in the PRC, and Dean Fa Food Co., Ltd, which develops equipment for food manufacturing and processing in Taiwan. The consideration will be paid in cash (S$2.8m) and 219.7m new PSC shares at S$0.42/share (S$92.3m), 5.5% premium to VWAP. The new shares amount to 28.4% of the enlarged share base. The bean curd business is synergistic to PSC's current soyabean production under Fortune Food Manufacturing, and opens the door to the Chinese market for PSC.
The acquisition will add S$2.3m to PSC's FY21's net earnings of S$30m. The acquisition is priced at P/E of 40.4x and P/B of 1.4x. PSC is trading at FY21 P/E of 7.4x and P/B of 0.6x. Major shareholder Goi Seng Hui's stake is estimated to decline from 29.8% to 21.3%. *(Yeo Peng Joon)*

OTS Holdings | launches plant-based, ready-to-eat food brand 'ANEW' and rolls out three plant-based luncheon meat products through online stores and major supermarkets across Singapore. These products were developed through in-house R&D efforts.
According to abillion, the operating environment in Singapore for plant-based meat is less competitive, compared with UK and the US, implying ample growth potential. OTS' luncheon meat products are more appropriate for Asian cooking, hence would appeal to Asians. Other brands that have launched plant-based pork products include Karana and OmniFoods. Karana launched its products across leading restaurants while OmniFoods retails luncheon meat and strips in local supermarkets. *(Peggy Mak)*

Raffles Education | announced a rights issue and private placement of 5-year 6% convertible bonds due 2027 to raise S$37.8m. The bonds are convertible into 678.4m new shares, or 33% of enlarged share cap. These bonds are issued at 85% of face value of S$1.00, and conversion price is set at S$0.065, i.e. the effective conversion price is S$0.055 for RE shareholders and the private placees (which is UOB Kay Hian). The theoretical ex-price is S$0.059. Every 1,000 ordinary shares will be entitled to subscribe for S$16.15 worth of bonds. The rights issue is underwritten by UOBKH. The proceeds will be used to pare down net debt of S$256m as at Mar 2022, of which S$217m is current. *(Peggy Mak)*