SAC CAPITAL

This is SAC weekly newsletter for 16 Mar 2022. Thank you for reading.

## Market Moves

The Fed fund rate was raised by 25bp for the first time in four years, with a clear signal that hikes will continue till inflation is tamed. Yields, which have been climbing since the Ukraine war erupted, came off after the news, to about 2.14%. The hike, however, was overshadowed by the invasion of Ukraine and the lockdowns in China.

The invasion of Ukraine have a direct impact on European economies, and indirect impact on Asia. The higher energy and food prices exert pressure on margins and consumer sentiments. The uncertainty would curtail capex plans. February manufacturing PMI were already down in the countries that share a border with Russia - Germany (-1.5pt to 58.4), Sweden (-3.6pt to 58.6), Austria (-3.1pt to 58.4). Poland's PMI, at 54.7, looks set to decline as it faces war threats and influx of refugees. We expect European PMI for manufacturing and services to be <50 (ie contraction in activities) in Q2.

The reduction in European demand is more pronounced on Thailand's tourism sector. Tourism accounts for ~20% of GDP (both direct & indirect). Higher energy prices would also have a larger negative impact on Thailand, Korea and Taiwan, where energy trade balance as % of GDP is -4.6%, -4.5% and -4.2% respectively. Asian economies are only beginning to recover from COVID. Higher interest rates are exerting pressure on Asian currencies, and rising food inflation will slow the recovery.

COVID resurgence in Shanghai and Shenzhen have shuttered manufacturing plants, likely negatively impacting March's output. On a positive note, this might reduce the demand for commodities, ease supply chain pressure, and help to lower input prices. Still, we think Q1 GDP growth for China and Europe will be revised downwards, and present downside risk to growth for the Asian economies.

The consumer sentiment in Singapore has been upbeat, lifted by re-opening initiatives locally and in the regional countries, as we look forward to return to more normal living, overseas travel, concerts and large-scale events. Chief beneficiaries would be mm2 Asia, Unusual, GHY Culture, the hotels, aviation sector and retail sector.

## Analysts' Notes

**Marco Polo Marine |** will be codeveloping 2 new SOVs with Seatech Solutions International to be deployed in offshore windfarm market. SOV accommodates windfarm technicians at the sea which provide greater convenience and a lower cost solution to maintain offshore wind turbines. Global Wind Energy Council forecasted Asia market to install ~100GW of offshore wind capacity by 2030. Demand for SOV in Asia is expected to climb over the years as more offshore windfarms are commissioned. While conversion from other type of vessels is possible, it is limited by vessel age and lower emission requirements. Currently, there are ~22 SOVs globally. The new development of SOV is timely for Marco Polo to capture the huge market to come. *(Lim Shu Rong)*

**Ascott Residence Trust |** ART is looking to acquire 5 longer-stay assets (4 rental housing properties and 1 student accommodation) in Japan for JPY 10.4b (~S$125.0m). The acquisition is expected to be DPS accretive at 1.7% on a FY21 pro forma basis and provide and average NOI yield of ~4.0%. The acquisition will be 100% debt funded and is expected to be completed by 1Q22 (student accommodation) and 2Q23 (rental housing properties). Based on current capital structure, post-gearing will be at 38.3%.

Since 2021, ART has invested ~S$950m in longer-stay assets. ART has invested in 11 longer-stay assets (3 rental housing and 8 student accommodation) in 2021 alone and these latest acquisitions are expected to increase the weightage of longer-stay properties in its portfolio to 17%. ART is planning to increase longer-stay assets in its overall portfolio to 25% - 30% in the medium term.

COVID has caused severe disruption to the hospitality sector and has continued to pose a challenge amid emergence of variants and travel restrictions. We believe that these longer-stay assets will provide income stability while the hospitality sector continues its path of recovery from the pandemic. ART is currently trading at 4.2% dividend yield and 0.9x P/B. *(Lam Wang Kwan)*

**SLB |** Tied up with Weave Living to acquire 17 shophouses in Jalan Sultan and convert into co-living space for S$74.8m. We believe these assets could be injected into a fund managed by 32 Real Estate Pte Ltd (32RE), in which SLB holds a 33% stake. Prior to this, SLB (via 32RE) and Weave has a S$150m JV to invest in co-living spaces in Singapore.

All residential projects are fully sold and we estimate ~S$190m to be received in 2022/23. SLB looks to build recurring revenue from rental (Thye Hong Centre at cap rate of 4.4%) and fee income. The latter could be via direct JV with external funds (5% stake in RMIT Bourke Street Centre), equity stake on platforms (20% stake in UK-based Pinnacle Investment Management Ltd), and investments in funds (£2m investment into a UK residential fund, Pinnacle Residential fund). SLB could be re-rated (P/B 0.6x currently) with as it adds a recurring and sustainable income stream and cashflow from fund management. *(Peggy Mak)*

## Company News

**Silverlake |** proposed to buy back 9.06% of the share cap for S$80m or 242.4m shares at S$0.33. Executive Chairman Goh Peng Ooi will not participate. If minority shareholders tender for the entire 242.4m, his stake will be raised from 68.6% to 75.4%, and free float will fall from 29.4% to 22.4%. At

S$0.33, it is priced at 14.3x annualized FY22E (Jun) PE, and 2.4x P/B. The partial GO will be funded via net cash & equivalent of RMB821.8m as at Dec 21.

**Ntegrator International** | secured 2 contracts of ~S$29m for the installation and maintenance of fibre and copper cables from a regional telecommunication service provider. The contracts come with a 1-year extension option. This brings its total orderbook to S$96.9m. (excl. extension contracts of S$14.5m)

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