SAC CAPITAL

This is SAC's weekly newsletter for 17 August 2022. Thank you for reading.

Analysts' Notes

Olam <1H22 Earnings Call> | Revenue rose to S$28.4b (+24.6%) while gross margins dipped by 20 bp as inflationary pressure on input cost and energy prices persist. New contract pricing will be higher. The increase in EBIT to S$802.1m (+25.0%) is driven by (i) higher demand and ASP across products and commodities; (ii) flourishing of rice export to Africa from India (iii) enlarged fleet size; (iv) +0.5% increase in sales volume. Larger net finance costs due to higher average borrowings and interest rates as well as higher taxation caused net profit to rise by 1.8% to S$429.1m.

Headwinds to the business operations include (i) Ukraine-Russia shipment disruption which is seen to ease as Ukraine's grain shipment corridor reopens; (ii) China's lockdowns; (iii) price volatility in commodities; (iv) inflated input cost.

The Group plans to exit the remaining 5 of its de-prioritised assets under Olam Global Holdco. After concluding a placement with SALIC, Olam Group holds a 64.6% stake in Olam Agri and is looking for a sale of an additional 10%. It has been delayed but still plans to spin off Ofi on the LSE and SGX when the market condition improves.

Net gearing as of Jun 22 was 1.6x, and OLAM will keep this at below 2.0x. An interim dividend has been declared, giving a yield of 2.6%. *(Yeo Peng Joon)*

Food Empire <1H22 Earnings Call> | 1H22 revenue grew to US$177m (+18.5% yoy) despite the Ukraine-Russia conflict which started on Feb22 backed by (i) higher ASP; (ii) Ruble/USD appreciation by 38% in 1H but has since depreciated by 12% from end Jun; (iii) resilience in demand for coffee; (iv) easing of lockdown restrictions which improves supply chain in Kazakhstan and normalized demand in Vietnam.

Russia accounted for 32% of total sales and grew by 5% yoy; Ukraine, Kazakhstan and the CIS market accounted for 23% and grew by 17% yoy; South Asia where revenue is up 222% and accounts for 11% of total sales from higher international demand for coffee, and contribution for freeze-dry coffee which commenced operations in 2Q21.

Gross margins were hurt by 2.84% points to 29.3% as the Group faces challenges from rising commodity prices and higher international freight. The management believes that commodity and freight costs are plateauing and heading downwards hence do not need to increase the price further to support margins. The reduction in marketing and promotional expense (-28%) especially in the Russia and Ukraine markets, gains from associates of US$4.0m and foreign exchange gain of US$7.3m contributed to the increase in net profit of 127.7% to US$27.1m. Inventories which consist of mostly raw materials and the rest are finished goods are up by 47% from supply chain disruptions.

Going forward, Food Empire will change its focus from profitability to growth in the top line by ramping up promotional activities in all markets with an exception of Ukraine, increasing the utilization rate of its new freeze-dry coffee plant in India and gearing up its production capabilities from the expanded non-dairy creamer factory in 3Q22. *(Yeo Peng Joon)*

UMS Holdings <1H22 Earnings Call> | UMS delivered record 1H results. Revenue (S$171m) growth of 40% was driven by the sustained demand for both its semiconductor integrated systems and components, consolidation of JEP's results and contributions from its subsidiaries. Net profit increased 34% yoy to S$40m, slightly impacted by rising material and operational costs which brought down pretax margin from 33% to 31%. Nevertheless, margin has since normalised as gross and pre-tax margin has stabilised (2Q: 52%/31% vs 1Q: 51%/30%). The Group has stocked up on its inventory which insulates it from fluctuation in input materials' prices. Manpower costs are likely to level off as well as UMS can now recruit more foreign workers following the deferment of 80 (local):20 (foreign) employment policy to end 2024 in Malaysia. Indonesia has also lifted its ban of its workers' entry into Malaysia.
UMS's key customer keeps to an upbeat tone on its sales forecast. Despite the lowering of CAPEX plans from some chipmakers, semicon equipment makers such as ASML and Lams Research are still showing optimistic numbers in terms of net bookings and upcoming quarter sales guidance. As such, we think the macro-outlook is still in favour of UMS in the near term. *(Lim Shu Rong)*

Dyna-Mac <1H22 Earnings Call> |1H22 revenue of S$124m grew 16.6% yoy as more progress was made for its projects. Consequently, net profit increased 3.8% yoy to S$3.2m. The Group has completed all of the projects secured pre-pandemic. Utilisation at its yard is currently at its max. The Group is fully occupied till 2024 with its current net orderbook of S$535.2m. Nevertheless, the Group can still take on additional projects with near term delivery via leasing of yard space. FPSO market is still buoyant as demand for new FPSOs outstrips supply. *(Lim Shu Rong)*

Riverstone <2Q22 Earnings Call> | Riverstone had a less-bad performance compared with other glove makers. Revenue was 13% qoq lower, and net profit down 8%, as volume and ASP for the cleanroom gloves were holding steady. However, 3Q cleanroom volume is expected to fall by 10% qoq, with operational slowdown at one significant customer. In the medical glove segment, price pressure persists, with industry over-capacity and distributors holding back orders in anticipation of lower prices. Production capacity in the glove industry added during Covid are just beginning to come into operation, hence oversupply of medical gloves is expected to last for at least 6 months. Riverstone has cut back on expansion plans, as with other players. We expect a sector consolidation in the next 6-12 months, which is positive for those with niche products or brand names. Higher gas prices and labour constraints could weed out the weaker players. Riverstone has cash of RM1.2bn, or 25.5 Sct/sh, equivalent to 36% of mkt cap. *(Peggy Mak)*