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This is SAC's weekly newsletter for 21 September 2022. Thank you for reading.

Analysts' Notes

Top Glove <FY22 result> | 4Q revenue fell 32.4% qoq to RM 990m as ASP continues to trend lower. The Group reverses into a loss of RM 42m due to higher operating costs from higher gas tariffs and labour costs. To cope with rising costs, Top Glove has raised its ASP by 5% for Oct 22. In view of the persistent oversupply situation, the price increase may prompt its customers to switch to other suppliers. The Group has deferred its CAPEX plan for 2023 as part of its cost rationalisation program. Industry plant utilisation currently stands at ~55%, down from optimal level of 80-90%. Utilisation is expected to fall, a sentiment echoed by other industry players.

Top Glove is trading at a PE of 22x vis-à-vis Singapore and Malaysia industry comparable average or approximately 4.2x with a net cash position of ~S\$14m. (Lim Shu Rong)

Mercurius Capital Investment Ltd <Business Update> | The Group is in the midst of acquiring Songmart Holdings on July 22 to diversify their operations in the hospitality business. Songmart is in the business of trading foodstuff, groceries, sundry goods and daily necessities, runs mini-marts and convenience stores (under Songmart, Songmart Express, G Grocery brands), and also a supermarket (under Grandville brand) in Malaysia. The target group opened 5 grocery stores on 16 Sep 22, bringing the total operating stores to 18, with another to open 5 next month in Malaysia. Expansion to Singapore, Indonesia, Thailand and Vietnam are on the table. RM33.2m loan facility has been obtained for purpose of partial refinancing and working capital.

Songmart booked a net profit of RM5.4m in 9M21. Mercurius recorded a net loss of RM2.6m in 1H22. The acquisition had experienced delays but is expected to be completed in Oct 2022 and Songmart's net profit will be recognised only in 2H22. As part of the consideration, Songmart has to achieve PAT of RM15.0m and RM16.5m in FY22 and FY23. The group is currently trading at a PB of 22.8x with a forward NTA of S\$0.049cts in FY22E. (Yeo Peng Joon)

First REIT <Business Update> | Following the addition of 12 nursing homes in Japan which have been completed on Mar 22, First REITs announced the acquisition of 2 more nursing homes in the vicinity of Tokyo and Nagoya city centres, which they do not yet have a presence in. Once completed, developed markets will account for about 25% of the AUM (target: >50%). Arising from this acquisition, Social Welfare Research Institute and Benesse Style Care will be joining the First REITS third-party operators list, diversifying the operator base. The consideration of S\$2.63m will be fully funded by jpy debt. The properties will have a combined net yield of 5.2%, contributing to DPU. After the completion of the deal, gearing will increase to 55.9% (1H22: 54.3%). The group is currently priced at 0.8x PB. (Yeo Peng Joon)

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