This is SAC weekly newsletter for 23 Mar 2022. Thank you for reading.

Market Moves

The market rallied on reopening hopes as Singapore will, from 29 March, substantially lift most COVID restrictions. The biggest winner is the aviation sector, where airlines are now able to fully operate. According to the authority, passenger volume at Changi Airport, at 18.2% of pre-pandemic level currently, is expected to reach at least 50% by this year. The removal of on-arrival testing and quarantine regime is a major boost to local tourism. But would shave revenue at hotels and healthcare players that offered these services. Telcos will enjoy recovery in roaming revenue (we estimate about 20-30% of mobile revenue) that flows straight to the bottomline. Concerts and big-scale sports events can now be hosted, as these events typically draw crowds from regional countries.

Conversely, spending would shift from goods to services, with more travelling overseas and return to office. Vaccinations would fall as only selected groups are required to take the 4th dose. We expect slow recovery in foreign patients as hospitals are still under stress due to high number of acute medical emergency cases that have been deferred. The strong S$ vs regional currencies is also a potential deterrence. We are also less optimistic on the retail sector, that will face with higher manpower and input costs. Mall owners have the upper hand in rent negotiation, and would loath spread erosion in times of rising interest rates.

Higher consumption demand, material and oil, and commodity prices are likely to keep inflation elevated. CPI, which grew 4.3% yoy in Feb, was lifted by cars and petrol (+14.8%) and utilities (+11.5%). Prices of food (+2.0%) and food serving (+2.5%) will edge higher with supply shock from Ukraine and Russia. The rise in prices could help lift earnings momentum in the short-term. But if prolonged, this could destroy demand and weaken economic growth.

The week also saw major equity raisings from REITs. MCOT revised its offer for MAGIC with an additional option of all-cash offer of S$1.1949/share. MCOT will need to raise S$2.2bn via equity issuance to meet the cash requirement. Lendlease raised S$400m via a private placement at S$0.725 each, and launched a preferential offer to existing unit holders at S$0.72 to raise a further S$248.8m. Cuscaden consortium has received the go-ahead from SPH shareholders to privatise the group with the options of S$2.36 all cash or S$1.602 cash and 0.782 units in SPH REIT. If most shareholders pick the all-cash option, Cuscaden would need to launch a GO for SPH REIT at minimum of S$0.964 per unit. We recommend the all-cash option, as the SPH GO is almost a done deal, and at S$0.964, SPH REIT is already priced at 5.9% premium to NAV of S$0.91.

Analysts' Notes

Japfa | Food companies have come under investors' radar with the outbreak of Russia/Ukraine conflict. Still, Malaysian dairy farmer Farm Fresh Bhd debuted on Bursa at 36x FY21 PE (excluding one-off tax charge) was mind-boggling. It is priced at market cap of RM3.1b, or US$730m. Similarly, China Mengniu (2319 HK) announced its intention to privatise Yashili International (1230 HK) at HK$1.20 per share, subject to some conditions. Mengniu holds a 51.04% stake in Yashili. At HK$1.20, this values Yashili at HK$5.69bn, or ~46x FY21E PE (excluding one-off impairment on Dumex's operations). China Youran (9858 HK), on the other hand, trades at 8.2x FY21E annualised PE. Comparatively, Japfa is trading at 8.1x FY21 PE, with market cap of US$960m. Dairy accounted for ~66% of Japfa's FY21 net profit. *(Peggy Mak)*

Nordic Group Limited | Net profit of S$14m surged 1.5x on the back of higher margin as business activities resume and lower finance costs from lower interest rates in the year. Acquisition of Starburst is expected to be completed in late April. Inclusive of Starburst's orderbook, the Group has a total of S$262.4m projects on hand, with a 63%/37% split in maintenance and capital projects. Maintenance projects provide a consistent stream of income as they are recurring in nature and the contract period can stretch up to 5 years. Capital projects are one off and lumpy in nature. Gradual improvement in local labour supply would allow NGL to add more projects to its orderbook. Starburst provides further sales growth opportunities with its established base of customers in Middle East which NGL does not have a presence in. The Group is currently trading at 14.48x PE and 7.95x EV/EBITDA. The Group also has a net cash of S$15m. *(Lim Shu Rong)*

Company News

ISOTeam | added S$31.9m new contracts to its orderbook. The contracts comprise of 1 M&E project of S$4.2m, 10 Repair & Redecoration projects of S$17.9m and 9 Coating and painting projects of S$9.8m to be completed Nov 22, May 23 and Jan 24 respectively.