This is SAC's weekly newsletter for 24 August 2022. Thank you for reading.

Analysts' Notes

Tuan Sing <Privatisation of SP Corporation> | Tuan Sing plans to take 80.2% SP Corporation private at S$1.59/sh, equivalent to NAV as at Jun 22. SP Corp was largely dormant in 1H22, but has net cash of S$54.7m (S$1.56/sh). The scheme requires the approval of 75% of the minority shareholders. SP will be delisted if the privatization is successful. *(Peggy Mak)*

First REIT <Cash tender offer for S$60m 4.9817% notes> | First REIT extends a cash tender offer to perpetual holders to acquire the S$60m 4.9817% notes at 70% of the face value. Total outlay of S$42m, if fully taken up, will be funded by cash on hand and expected cash inflow of about S$40m from the sale of the Surabaya project. This will not have an impact on aggregate leverage (as at Jun: 35.6%). Average cost of borrowing stays at 3.7%. With interest savings, DPU has room to rise. *(Peggy Mak)*

The Straits Trading Company Ltd <Special dividend-in-specie> | STC has proposed to distribute in specie to STC shareholders in the form of 1) 145 HK-listed ESR Group shares held by STC or 2) new 180 STC shares, for every 1,000 existing STC shares held. The value of the distribution is about S$217.9m or S$0.50/sh. Tecity Pte Ltd, which holds 69.6% of STC, will opt for ESR shares. Taking into account that STC's theoretical ex-price will be S$0.50 lower than current, and current share prices of ESR (HK$20.00) and STC (S$3.19), we would recommend to take the ESR shares. *(Peggy Mak)*

Fu Yu Corporation <1H22 Earnings Call> | Fu Yu is a precision plastic components manufacturer. It has presence in various markets including printing & imaging, networking & communications, consumer, medical, automotive & power. The Group has manufacturing facilities in Singapore, Malaysia and China. Following the acquisition of Fu Yu Supply Chain Solutions (FYSCS) (pka Avantgarde Enterprise) in 2H21, the Group now provides logistics support to deliver commodities (e.g. palm oil, VGO) from buyers to sellers. 1H revenue (S$122m) jumped 73% yoy largely due to the consolidation of FYSCS. FYSCS makes up 41% of 1H total revenue. Excluding FYSCS's contribution, revenue from its manufacturing segment grew ~2% yoy. Sales growth is impacted by lockdown measures implemented in China which disrupted material purchases and delivery of products to its customers in Shanghai. Gross margin fell to 17% (1H21: 24%) as SCS has a smaller gm of 5%. On a standalone basis, gm for its manufacturing segment improved 2pp to 26% from higher sales of medical products which fetched higher margin.
FYSCS will be serving as the procurement arm for the Group and is responsible for the purchase of raw material (mainly resin) for all manufacturing facilities. We can expect some cost savings from a greater economy of scale with a larger consolidated volume, hence improving margin.
The Group is expanding its capacity with the construction of a new smart factory in Singapore to take on existing production as well as orders from new customers. Medical and other higher-margin products are the Group's focus. Total CAPEX is expected to be S$20m funded via loan of S$10m and internal cash. The factory is scheduled to be completed in 3Q22. Fu Yu has net cash of S$64m as at 30 June 22. *(Lim Shu Rong)*