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This is SAC weekly newsletter for 27 Apr 2022. Thank you for reading.

Analysts' Notes

Mar core inflation rose 2.9% yoy, and CPI rose 5.4%, led by private transport (+21.5%), electricity and gas (+17.8%) and accommodation (+3.5%). MAS raised 2022 projections of CPI to 4.5–5.5%, and core inflation to 2.5-3.5%, and expects core inflation to peak at 4% in 3Q. Sectors that are better-placed to counter inflationary pressure and recessionary risks are consumer staples (Sheng Siong), transport (Comfort Delgro), utilities (Singtel, Starhub) and finance (UOB). Companies that are able to pass through higher costs include building material suppliers (BRC Asia, Pan United and HG Metal), and REITs with inflation-adjusted rental terms (ParkwayLife REIT, First REIT, Elite Commercial). *(Peggy Mak)*

Home sales | Home sales fell in 1Q22 for both private and HDB units. Volume of HDB resale fell 12.7% qoq to 6,934 units (4Q21: -5.8%), while private homes fell 32.6% qoq to 5,343 units (4Q21: -12.7%). While HDB prices climbed 2.4% qoq (4Q21: +3.4% qoq), private homes rose by a smaller 0.7% qoq (4Q21: +5.0%), and mainly led by landed homes (+4.2% qoq). Non-landed actually fell 0.3%. Those located at the fringe of central region fell the most at -2.7%. Though new launch was a record low 613 units (4Q21: 2,275), inventory of unsold units was flat at 14,087 (Dec 21: 14,154), a sign that buyers are deterred by high prices and rising mortgage rates, and turning to rental (private rental +4.2% qoq). Maintain HOLD on PropNex (TP: S$1.78) *(Peggy Mak)*

Keppel and SembMarine (SMM) <merger of O&M assets> | announced merger of their O&M operations. We think SMM shareholders get a raw deal, and could vote it down. The deal is subjected to various regulatory approvals, and expected to conclude in 4Q22.

Keppel unloads its loss-making assets and receive S$9.42b from 1) S$4.05b - sale of legacy rigs and associated receivables; 2) S$4.87b – sell KOM operating assets (NAV S$0.86b) to a combined entity (CE), in exchange for shares in CE at S$0.122 each. and 3) S$500m from KOM for repayment of investments in perpetual securities.

SMM assets will be injected into CE at 1x book. Keppel/SMM stake in CE will be 56/44. Keppel will distribute 46% stake in CE (value S$2.14b or S$1.18 per Keppel share) to its shareholders. Keppel shareholders would be happy to receive free shares in CE (NAV is S$0.07/share). Temasek will own 33.5% of CE, from 54.6% stake in SMM currently. SMM shareholders face dilutions in NAV/share from S$0.12 at end Dec 21 to S$0.07. Net loss for FY21 would have risen by S$106m to S$1.27b. Total debt of CE is S$3.8b, or total debt/equity of 0.8x. *(Peggy Mak)*

2021. This is the latest of a series of moves from the authority to keep cooking oil affordable in the country. In early Jan, it set a minimum requirement (30%) for producers to sell to the domestic market at stipulated prices. This was replaced with higher export levy (max US$375/ton) in March. The latest move would keep CPO price high globally, benefit the Malaysian CPO producers and boost prices of alternatives such as soybean oil and rapeseed oil, at the expense of Indonesia CPO producers. Singapore-listed CPO producers are mainly based in Indonesia. Bumitama Agri and First Resources are most affected. The move has also raised risk premium for investment in Indonesia. *(Peggy Mak)*

Sheng Siong Holdings <1Q22 earnings report> | The supermarket chain posted strong 1Q22 revenue growth (6.0% yoy and 5.3% qoq), with GM +1.1% pt yoy to 28.7%. It was able to pass through substantially the cost increases. Net profit rose 13.9% as operating leverage drove net margin 0.7% pt higher to 9.8%. Its high ROIC of 56% makes SSH one of the best in class. We cannot tell how consumer behaviour will alter post re-opening, with more shopping in Malaysia and dining out. SSH remains a defensive play in an inflationary environment. The share trades at 16x FY22E PE and 9x FY22E EV/EBITDA. *(Peggy Mak)*

iFAST Corporation <1Q22 earnings report> | 1Q net revenue fell 1.2% yoy, net profit -35% yoy, and AUA -2% qoq to S$18.6b, due to lower non-recurring income from weaker stock and bond prices. It guided lower net profit in FY22, including S$4m loss from recently acquired UK iFAST Global Bank. The acquisition of a digital bank is strategic, as it widens iFAST's reach to customers' funds from all over the world to be invested in its products. On the other hand, the company bumped up FY23-25 guidance for HK eMPF project. iFAST has a well-executed strategy and is poised to play a significant role in online wealth management and digital banking in the longer term, in our view. *(Peggy Mak)*

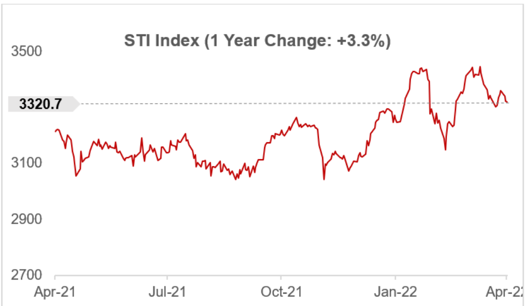
Addvalue Technologies <Analyst briefing> | Management expects its IDRS business to be a significant revenue driver for the Group. IDRS makes up 44% of its 1H22 revenue. Revenue for the segment is generated through the sale of its proprietary IDRS hardware terminals, subscription plans with customers and provision of airtime services. IDRS terminals provide real-time data connectivity to low-earth orbit (LEO) satellite operators. Communications from LEO satellites are otherwise limited to the short time frame when the satellites are in sight of an Earth station. The terminals are installed on LEO satellites before they are launched into space. Currently, there is a total of 7 terminals in space with the first commissioned in Nov 2021. Once the terminals are commissioned in space, revenue from airtime services grows as customers command their satellites in real-time which progressively ramps up airtime usage. Another 6 terminals will be delivered to the customers by end FY22, contributing ~US2.31m to the total revenue. *(Lim Shu Rong)*

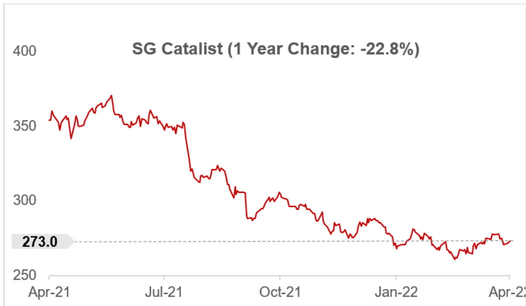
Mapletree Industrial Trust <Analyst Briefing> | MIT is expected to be negatively impacted by the rising electricity costs in FY22/23. Other than the data centres, which are mostly on triple net lease, MIT takes on the exposure for the rise in utility costs in the rest of its Singapore portfolio. It is noted that the current hedge on electricity prices will end by May and MIT will have to take on new rates starting in Jun 2022. Utility costs are estimated to increase by 2 – 3x to ~S$10m, causing NPI to drop by 2 – 3%. MIT is working to pass on some of the increase in costs through higher service charges. Other than rising energy costs, the REIT is also impacted the interest rate hike. It is estimated that for every 50 bps increase in with AT&T (2.6% of GRI), which will provide better income visibility. MIT is also likely to release the retained distribution of S$6.6m in FY22/23 to mitigate the impact of rising costs on DPU. In the absence of other catalysts, we expect MIT's FY22/23 DPU to increase marginally. MIT is currently trading at a yield of 5.2% and P/NAV of 1.4x. *(Lam Wang Kwan)*

Company News

Koyo International successfully tendered for the contract providing mechanical works for Johor Bahru – Singapore Rapid Transit System Link station, Customs building and tunnels. The contract contributes ~S$155m to its orderbook and is slated to start in April 2022 and complete in 2026.

Acrometa Group scored a S$31m outfitting contract from a semiconductor player with a manufacturing facility in Singapore. The Group will be fitting out an additional floor in the existing facility and targets to complete it in 2023.





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