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This is SAC weekly newsletter for 30 Mar 2022. Thank you for reading.

Market Moves

The jubilant mood in Singapore driven by lifting of COVID curbs masks a weakening in business confidence in the major economies. Germany's Ifo Business Climate indicator fell to a 14-month low of 90.8 in March (Feb: 98.9). South Korea's Business Survey Index on business conditions in the manufacturing sector fell to 83 in March (Feb: 91). The index that measures the outlook for April also fell 8pt to 85. The war in Ukraine, higher energy costs and supply chain constraints are negatively impacting economic outlook. The uncertainty has caused wild swings in commodity and oil prices, which have bigger ramifications in ASEAN. Thailand and Singapore face the biggest hit. We expect downward revisions to GDP and earnings for 1H2022.

We believe high commodity prices are not sustainable in the longer term, with 1) weaker economies drag down by high inflation; 2) demand destruction; 3) potential increased output from other countries; and 4) China and India continue to import from Russia (and possibly less from other sources). Although trade flows will take time to adjust, over time this would rebalance and prices would adjust accordingly. Food prices, however, are likely to stay high for longer, as Ukrainian farmers would miss the coming planting season in April.

China's stringent lockdowns in Shenzhen and now Shanghai are putting strains on economic activities. Manufacturing PMI fell to contractionary 49.5 (Feb: 50.2) and non-manufacturing PMI to 48.4 (Feb: 51.6). SG-listed tech companies with operations in China, such as Nanofilm, Aztech faced production disruptions.

US hostility towards China is filtering through to ASEAN. The US domestic solar producers are seeking to impose tariffs on imports from Malaysia, Thailand, Vietnam and Cambodia. They argued that the Chinese components are being assembled in these countries to be made into solar cells and modules that can enter US market duty-free. If successful, this is a worrying trend for ASEAN's manufacturers.

On a brighter note, Japfa plans to list its dairy operations (it holds 62.5%) on HK exchange and distribute the shares in specie to Japfa's shareholders. The dairy business was valued at US$1,168m at Dec 21 when it sold a 5% stake to New Hope Dairy Co., Ltd., and entered into a 5-year deal to supply raw milk to

New Hope. This translates into S$0.49 per Japfa share. Based on this and current share price of PT Japfa, our SOTP value for Japfa is S$1.00/share.

Analysts' Notes

Reclaims Global Limited | reported +124% jump in net profit to S$4.9m in FY ended 31 Jan 22. This is attributed to higher business activities (+47.6%) and a low FY21 base effect. Return of construction activities has seen higher demand across all of its services provided. (Sale of recycled construction materials +81%, Excavation services +19%, Logistics and Leasing of equipment +68%) Operating margin has improved to 17% (FY21: 11%). Forecasted construction demand of S$27-32b for FY22 is back to pre-pandemic FY19 level. We expect the Group to benefit from the robust demand with 60% of the projects coming from public sector, the area it focuses on. The Group is currently trading at PE of 5.1x and PB of 0.9x. Its net cash balance of S$11m accounts for 44% of its market cap. *(Lim Shu Rong)*

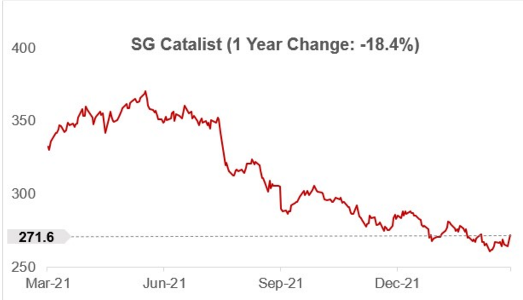
CapitaLand Integrated Commercial Trust | CICT is acquiring 70% interest in 79 Robinson Road, a grade A office building located in the CBD area. CapitaLand Investment Limited’s fund, CapitaLand Open End Real Estate Fund (COREF), will acquire the remaining 30% of the property. The total agreed property value is S$1.26b, which is at par with the independent valuations. A purchase consideration of S$421.1m in the 70% interest is arrived after taking into account the adjusted net asset value, which includes an existing bank loan S$620.0m. CICT will make partial loan repayment to the existing loan.

CICT's total acquisition outlay is S$869.2m, which consists of S$855.1m in acquisition cost (S$421.1m in purchase consideration, S$352.8m in partial loan repayment, S$81.2m of shareholder loans), S$8.8m in acquisition fees and S$5.3m of professional expenses. CICT will pay S$4.4m of the acquisition fees in units. Assuming 62% LTV, CICT will finance the acquisition with ~S$534.8m of debt and the remaining S$330m will be paid in cash through the proceeds from the divestment of JCube. Post-acquisition, CICT’s gearing level is expected to increase from 37.2% to 41.1%. The property has an NPI yield of 4%, which is lower than the current portfolio NPI yield of 4.4%. On a pro forma basis, FY21 DPU would have increased 1.1% from 10.40 Singapore cents to 10.51 Singapore cents.

Cat 1 office rent has recovered to the pre-COVID level of ~S$10.4 psf. Rental rate is expected to sustain at the current level on the back of limited supply (~0.8m sf in 2022) and redevelopment of ageing office buildings (e.g. AXA Tower and Singapore Land Tower) while the projected demand for grade A office in 2022 is ~0.9m sf driven by strong leasing demand from technology and financial services firms as well as the relocation of displaced tenants from office buildings undergoing redevelopment. However, CICT’s latest acquisition is expected to see minimal upside due to its long WALE of 5.8 years and low vacancy rate of 7.1%. CICT is currently trading at a yield of 4.6%, which is lower than the average yield of 5.8% in the diversified REIT sector. (Lam Wang Kwan)

Company News

Memiontec Holdings Ltd | secured a S$56.6m bioreactor installation contract from PUB. The contract commences in upcoming May and spans a period of 23 months. Inclusive of the contract, the Group has a total order book of S$120m as of 23 Mar.



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