SAC CAPITAL

This is SAC's weekly newsletter for 31 August 2022. Thank you for reading.

Analysts' Notes

RE&S Holdings <FY22 Earnings Call> | 2H22 revenue reached a record S$86.2m (+25.7% hoh), and net profit S$6.0m (+75.1% hoh), fuelled by (i) easing of dine-in group size and safe distancing measures from end 2021; (ii) addition of 8 quick service restaurants (QSR) in Aug-Dec 2021; (iii) slight rise in online sales to 13% of revenue. B2B sales to 7-Eleven stores (5% of revenue) is a new and growing channel. The spike was not driven by revenge spending, as the run-rate was sustained into July/August. 2H results were not fully reflective of price increases in May/Jun 2022.

Gross margins dipped 1.2% bp to 71.9% due to higher input costs and staff costs. Higher rental and utility costs are other challenges. A new rental framework has removed variable rental component. RE&S could layer more product offerings and online sales to mitigate margin pressure. Other areas for growth are 1) new products and brands; 2) emphasis on cost-effective QSR and high casual concept; 3) revamp of food street concept; and 4) potential overseas venture via franchise.

RE&S trades at EV/EBITDA of 1.7x and dividend yield of 7.4%. FCF yield is 34.8%. The operation is highly cash generative. *(Yeo Peng Joon)*

OTS Holdings <FY22 Earnings Call> | FY22 results (revenue -11.3% yoy to S$34.1m, NPAT -62.5% to S$1.1m) reflected 1) lifting of COVID restrictions leading to more dining out and less pantry stocking; 2) weak consumer spending power in Malaysia; 3) keen price competition from S Korean and Chinese luncheon meat products (15% cheaper); and 4) lower export sales to Myanmar due to political and movement constraints. This is mitigated by higher sales to new and existing customers in food service sector.

Gross margin (-2.6% pt to 28.0%) was hurt by (i) higher raw material prices; (ii) higher utility bill; and (iii) reduced cost efficiency from lower output. Indonesian JV to produce Chinese sausage, which halted production during COVID, resumed operations in April 2022.

The headwinds for FY23E are the absence of government grant (FY22: S$0.54m), higher labour costs, higher marketing and R&D spend for new plant-based products, and consumers trading downwards in an inflationary environment. OTS is hopeful that border reopening will lift its sales to the food service sector and overseas, and expand its market for plant-based products. *(Yeo Peng Joon)*

Koda <Management call> | FY22 revenue (US$79m) and earnings (US$ 5.7m) were down 4% and 38% respectively. Sales to its ODM customers fell 4% as production was temporarily disrupted by COVID restrictions. Sales at its Commune outlets (-5%) were also hit by stringent COVID measures in China. Gross margin fell 2.3pp to 30.5% on lower utilisation and higher material costs. The Group incurred US$2.9m damages caused by a fire accident at its Vietnam factory which contributed to the sharp drop in net profit. Adjusting for one-off items of US$0.7m (i.e. provision and compensation relating to the fire incident and govt grant), net profit would be US$6.4m.

The Group faces weaknesses in its main end customer markets, US and China. US retailers are plagued with overstocked inventories as US June retail inventories for furniture grew 14% YTD. Orders placed to Koda are expected to drop as the retailers focus on clearing their excess inventories. Separately, furniture sales in China are affected by its property market crisis and lockdowns which dampened consumer sentiment. Commune is taking a step back on its plan to expand in China and pivoting to markets in other countries including India and South Korea. This will help to reduce concentration risk as currently ~90-95% of its retail footprint are in China. Prudent cost management is crucial in view of the weakening demand environment. *(Lim Shu Rong)*

UG Healthcare <FY22 Earnings Call> | 2H22 revenue fell 1.7% hoh to S$115.3m, while net profit was 26.8% lower at S$15.5m. Though the consumption of gloves is higher than pre-COVID level, excess channel inventory at the end-users and distributors might take up to 2 quarters to normalise. This exerts pressure on ASP, but helps UG's trading business. UG's plant utilisation dropped to 70% in 2H22 due to shortage of workers and the new 1.2bn line is delayed till Oct 2022. Brazilian authority relaxed the requirements for gloves which led to an influx of competing brands. The rules have since been tightened, but the outcome has yet to be seen.
Expect higher costs in FY23E. Besides energy costs, UG will incur costs to build a new team in Europe to penetrate the market for reusable heavy-duty industrial gloves. UG trades at 0.6x P/B of S$0.367, of which 62% is net cash. *(Peggy Mak)*

China Shenshan Orchard Holdings <1H22 Earnings Report> | Kiwifruit harvest and sale occur in 2H, hence China Shenshan did not booked any sale in 1H22. It derived operating cash flow of RMB40m in 1H22 with the collection of trade receivables, and ended the June quarter with net cash of RMB92m (S$18.6m), or 83% of market cap. The stock trades at 0.11x P/B. *(Peggy Mak)*