SAC CAPITAL

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Market Moves

Propelled by banks, a strong S$ and positive macro data, Singapore is the best performing regional market YTD.

What sets the Singapore banks apart is the high CASA ratio. Net interest margins have room for expansion in a rising rate environment, as deposit rates are slower to be adjusted. Recent acquisitions by UOB and DBS add a feather in their caps. DBS' acquisition of Citigroup's Taiwan consumer business will add S$250m in net earnings, excluding transaction costs. UOB's acquisition in the 4 ASEAN countries will similarly rope in S$200-300m in annual earnings. Singapore's improved employment outlook, wage gain and higher real estate prices could improve asset quality and we might see writebacks in provisions.

Singapore's 2021 annual unemployment rate improved by 0.4 ppt to 2.6%, and is expected to further improve in 2022 to pre-COVID's level of 2.3%. This augurs well for consumer and healthcare stocks. Resident employment grew at a faster pace in Q4. Non-resident employment rose for the first time in two years, due to more foreign workers in the construction sector. Other sectors have remained relatively flat, after consecutive quarters of decline as expatriate employees departed in the midst of COVID. This has also negatively impact student numbers at international schools, according to Overseas Education.

HDB and private residential prices rose 12.7% and 10.6% in 2021. Unsold private homes fell 42% to about 14,333 units at end 2021. Prices are likely to stay elevated till early 2023, when government land sale in 2H 2022 translates into new launches in early 2023. About 31,000 HDB flats will reach the minimum occupancy period in 2022. These HDB upgraders will underpin demand for private residential units. We prefer the property agencies to the developers. The latter face higher costs in land replenishment, building materials and manpower.

Following in the footsteps of UK, European countries such as the Netherlands and Denmark are easing COVID restrictions. If the move proves to be viable, more countries might follow suit, enabling the European and possibly world economies to post an earlier recovery.

Analysts' Notes

Frasers Hospitality Trust | We noted several takeaways from FHT's 1Q22 analysts briefing. 1) Hospitality business sees strong uptrend when restrictions are lifted as noted by the rising RevPAR and occupancy % before the emergence of Omicron variant. Going forward, recovery is expected to be patchy dependent on vaccination rate and travel restrictions. 2) The divestment of Sofitel Sydney Wentworth is expected to lower FHT's gearing from 42% to 34%, which provides headroom for future acquisition. Hotel segment to remain the focus of FHT. 3) Future acquisitions will depend on both passing yield and growth potential. Acquisitions may not be DPU accretive owing to the beatdown hospitality market and the valuation of the hospitality REITs. FHT is currently trading at 0.7x its book value and at a dividend yield of 2.2% based on its FY21 financials. *(Lam Wang Kwan)*

Company News

Micro-Mechanics (Holdings) Ltd | Micro-Mechnics' 1H22 results posted 11% and 4.6% yoy increase in revenue and net profit respectively. Growth in 1H revenue was driven by higher sales. Impact of supply chain disruptions remains visible. GP margin has fallen qoq to 53.3% (1Q: 55.5%). The Group raised wages as part of their yearly review process. Overall margin remains stable at 54.4%, comparable to 1H21. The Group has announced an interim dividend of 6c/share for 1H22. FY21 dividend yield was 4%. The Group has a net cash position of S$18.3m and is trading at a PB of 8.1x.

Koh Brothers Eco Engineering Ltd | Koh Brothers Eco reversed its loss from its previous FY and posted a PATMI of S$2.0m for FY21. While FY21 revenue is marginally lower than FY20(-1%), gross profit has rebounded 19x to S$11.8m on improved operational efficiency. FY21 gross margin was 7%. (FY19: 6%) The Group has a net gearing of 7% and is trading at PE of 57x and PB of 0.8x. As labor shortage continues to improve, the Group can expect greater recovery in construction activities in FY22.

Frencken Group | Frencken is acquiring 50% shares in Penchem Technologies Sdn Bhd, an advanced materials manufacturer, from its shareholders for a cash consideration of RM15.6m (S$5.2m). This represents 1.9x of its net book value. Penchem has a NBV of RM16.3m as at 31 Dec 2021. Separately, the Group will also be subscribing an additional 1.92% of Penchem shares for RM0.6m (S$0.2m).