This is SAC weekly newsletter for 4 May 2022. Thank you for reading.

Market Moves

Much to the market's relief, Fed raised rates by 50bp and not the 75bp as earlier feared. QT will begin from Jun at monthly US$47.5b per month, rising to US$95b a month from Sep. The higher policy rates will support earnings at the local banks. Economic reopening will also bring about loans-growth. The risks to watch are higher inflation and slowing Chinese economy.

HK reported a surprise contraction of -4% yoy for 1Q GDP. However, the worst might be behind with April's manufacturing PMI at 51.7 (Mar: 42), the first expansion since Dec 21. The country's reopening will gain pace, with more flights and less movement restrictions that will bring back the tourists and business travellers. We see Dairy Farm as the main beneficiary among SGX-listed companies.

Singapore also reported stronger Apr manufacturing PMI of 50.3 (Mar: 50.1), mirroring the strong regional rebound - Malaysia (Apr: 51.6, Mar: 49.6), Indonesia (Apr: 51.9, Mar: 51.3) and Thailand (Apr: 51.9, Mar: 51.8). However, opening-up has raised inflationary pressure, with higher food, fertilizer and energy costs adding to price pressure. We have become less positive on 2H growth. ***(Peggy Mak)***

Analysts' Notes

LHN Logistics | Spun off as a logistic arm from LHN Limited, LHN Logistic listed on Catalist at S$33.5m market cap, through issuing of 25.2m shares at S$0.20. S$5.0m is raised from the placement. The Group provides transportation services, mainly for petrochemical products, and container depot services. The Group will also be offering ISO tank depot services, dealing with dangerous goods, after construction of its ISO tank depot at 7 Gul Avenue is completed. Construction is scheduled to finish within 12 months from April 22. Approvals from relevant authorities are needed before any depot services is allowed to commence. Local players competing in the same field include Cosco Shipping International (Singapore), GKE Corp and Vibrant Group. The issue priced LHN Logistics at PE of 10.1x and PB of 2.1x based on FY21 audited financials. (vs competitors' average PE of 13.5x and PB of 0.69x) ***(Lim Shu Rong)***

Elite Commercial REIT <Analyst Briefing> | We noted several takeaways: 1) FY22 DPU is likely to remain stable as the 8 tenants (4.8% of FY22 rental income) will remain income-producing until lease break option kicks in on March 2023. 2) FY23 DPU is expected to receive slight uplift with the CPI-linked rental escalation. We estimated rental income to increase by ~5% starting in April 2023 despite 10 assets (~6% of FY22 rental income) are forecasted to be vacant. These assets could potentially provide extra rental income if successfully leased out. 3) The S$14.8m of AEI work is expected to be funded through margins. 5) Elite has the option to extend the debt expiring in 2023 for 2.75 years at the existing rate (1.77 bps above SONIA). Elite is currently trading at a FY22E DPU yield of ~7.8%. ***(Lam Wang Kwan)***

Data Centre Moratorium | Singapore is lifting its moratorium on new data centre projects from Q2 2022. In the pilot phase of 12 to 18 months, a maximum of three applications will be approved for data centre with capacity between 10MW and 30MW. The new data centres must have a power usage effectiveness (PUE) of 1.3 and below. Currently in the S-REITs space, only Keppel DC REIT, Mapletree Industrial Trust and Ascendas REIT have exposure to Singapore-based data centres in their portfolio. While Singapore data centre assets are unlikely to see immediate impact on valuation and rental, this could open up for new entrants into the data centre space. One potential applicant could be AIMS APAC REIT, which is looking to revert its 15 Tai Seng Drive property back to data centre use. ***(Lam Wang Kwan)***

Banks <1Q earnings report> | All three local banks reported 10% yoy decline in 1Q22 profit, due to lower non-interest income. Loans grew yoy (DBS 6%, UOB 9%, OCBC 9%). Credit costs improved at DBS (5bp) and OCBC (6bp), but was maintained at UOB (23bp) though asset quality remain intact. NIM is expected to improve in 2H, though loans growth on a yoy basis might slow. Amongst the three banks, UOB's earnings have greater room to improve, given its high share of mortgage loans and potential reduction in credit costs. ***(Peggy Mak)***

Thai Beverage <spin off of the beer business> | Thai Beverage (TB) revived its plans to spin-off up to 20% of beer business (BeerCo) through vendor share sale on the SGX. The spin-off is only marginally positive on TB's valuation and financial metrics, in our view. BeerCo comprises beer sales in Thailand and those under 54%-owned Vietnam-listed Sabeco, and account for 20.7% of TB's earnings. A sale of 20% stake will reduce TB's core earnings by 4.1% (before exceptional gain on disposal). Assuming the IPO is priced at 18x FY21 PE (TB's current PE), proceeds of S$741m will pare net gearing to 0.78x, from 0.86x as at Sep 21. BeerCo generates low ROIC of 2.6% due to the high acquisition cost of US$4.84b for 54% of Sabeco in Dec 2017 (at 36x PE). We do not think the IPO can be priced at Sabeco's current PE of 28x, partly due to a low free float of about 10%. ***(Peggy Mak)***

Company News

Dyna Mac secured an S$180m contract for the construction of FPSO topside modules from a repeat customer. Construction commences in 4Q22 and is scheduled to complete in 1Q24. Strong orderbook of S$641.1m provides revenue visibility till 2024.