SAC CAPITAL

This is SAC weekly newsletter for 9 Mar 2022. Thank you for reading.

Market Moves

After the whiplash last week, global markets have a reprieve as investors hope for a de-escalation of the Russia/Ukraine conflict. IAE's plan to release 60m barrels of oil from strategic reserves, and potentially more crude supply from UAE and S Arabia also helped to calm fears of runaway inflation. Corporates that we spoke to pointed to risks of higher input and energy costs on margins. No one reported cutback in orders thus far, though it is too early to tell.

Supply chain disruption, which was on the amend as economies reopen, reverses course. MSC and Maersk suspended container shipping to and from Russia, leading to auto makers such as Volkswagen and Toyota halting production due to shortage of component supplies. This could spill over to the auto part makers in other parts of the world. Airlines, which faced the brunt of COVID damages to air travel, now have to face flight cancellations and diversions of flight routes that raise fuel consumption. Thankfully, the aviation sector receives a timely boost from a S$500m budget allocation.

Despite a strong results season and further growth expected in 2022 for Singapore's domestic sectors, equity valuations will factor in higher risk premium amid the geopolitical uncertainties. Margins are likely to be impacted as input costs rise and economies could slow with weaker consumer sentiment. Fed's coming rate decision would also keep investors on their toes.

Longer term, the conflict would quicken the transition to clean energy and wean off reliance on fossil fuel, increased focus on food security, essential medical supplies, and higher defence spend. More countries will step up onshoring of production, which has gained pace with COVID and US/China tensions.

Analysts' Notes

Livingstone Health (HOLD TP S$0.168) | partnered National Phytopharma JSC and Truth Assets Management to explore potential healthcare projects in Vietnam. This could operate in a similar model as its operations in Cambodia, where LH could provide consultancy service for the design of hospitals in Hanoi and HCMC. LH could also enter into JV to develop and run the hospitals. Other Singapore listed healthcare, such as Singapore Medical Group and Asian Healthcare Specialists, have also forayed into Vietnam, to tap the vast 98m population. Vietnam's healthcare spend per cap of US$152 in 2018 is low compared with Singapore's US$2,824. *(Peggy Mak)*

Samudera Shipping Line | FY21 was a record year for the Group as revenue and net profit are at its highest in the past 5 years. Higher freight rates and volume handled (+16%) drove revenue up by 52% to US$526.7m and contributed to a jump in gross margin to 27.9% (+19.4ppt). The Group has declared a total dividend of 14c/share for FY21 which translates to a yield of 19%. (FY20: 1%) Freight rates are still buoyant from capacity shortage as seen from China containerized freight index which was up 72% yoy as at 4 Mar 2022. However, with ~63% of its fleet belongs to chartered in vessels, gross margin comes under pressure from higher charter hire rate. Longer term charter has helped to preserve some margin. Operating cost is expected to climb along with higher bunker costs and costs related to delays at ports following Russia/Ukraine conflict. The Group is trading at PE of 2.3x and PB pf 0.9x and has a net cash of US$169.5m (43% of its current market cap). *(Lim Shu Rong)*

Cordlife | Full year revenue fell 3.9% to S$56.7m. Banking services saw a 6.3% decrease in new samples processed and stored as a result of COVID measures across the different countries, contributing to a 5.7% drop in revenue contribution to S$53.1m. The drop was offset by an increase in diagnostic service segment, particularly from pre-natal testing services. Gross margin improved to 69.7% from 68.0% owing to clients opting for higher value plans and lower cost of sales incurred as a result of increased cost efficiency in service delivery and lower depreciation expenses.

Going forward, the Group is expected to grow its diagnostic services, especially in mother and child segment which is an extension to the pregnancy journey and the Group's core in blood banking. Management expects diagnostic services to form ~10% of the revenue from the current 6% going forward. Cordlife is currently trading at PE of 15.7x and PB of 0.7x. Growth for Cordlife is expected to remain muted in FY22. While we expect the diagnostic services to continue to experience growth in FY22, the banking services will continue to be impacted by low birth rate and a lack of promotional events, which typically attract new signups to Cordlife's banking services. *(Lam Wang Kwan)*

Company News

Singapore O&G | Dymon Asia-led group, together with SOG's major shareholders with total stake of 71.4% launched a general offer for SOG for S$140m, or P/B 3.3x. The deal priced SOG at 16.8x FY21E PE, or 12.6x if net cash holdings of S$35m is excluded. SOG is a healthcare group with specialization in obstetrics and gynaecology, dermatology, cancer-related and paediatrics.