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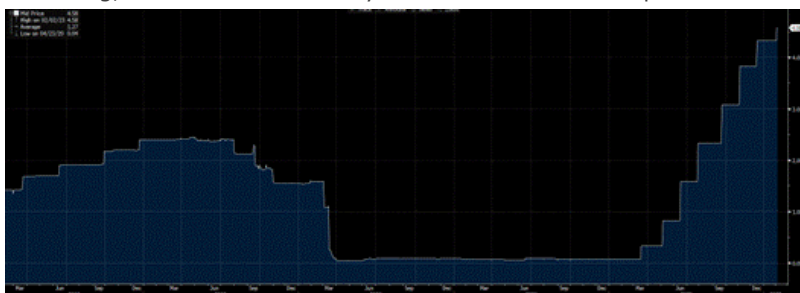
SG Weekly (30 Jan - 3 Feb 2023)

Dear Client,

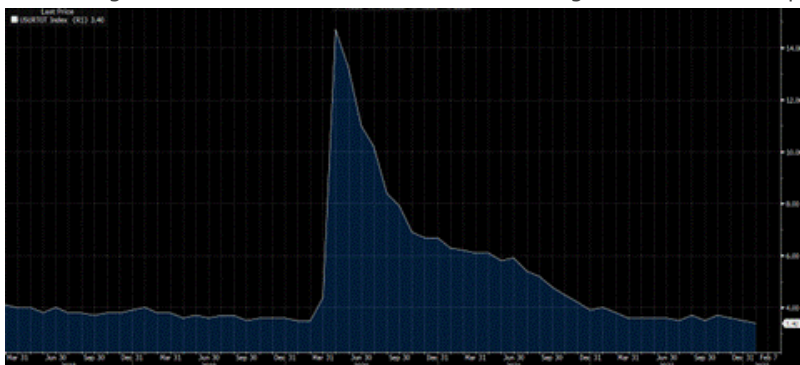
Our SG Weekly is written with you in mind. As we pen our thoughts, we hope to hear from you too. From feedback on our notes to any questions on the market/companies, we will endeavour to deliver the most comprehensive answers in subsequent instalments of our SG Weekly. Please write to us at research@saccapital.com.sg. Looking forward to hearing from you. Thank you.

US Market

As widely expected, Federal Reserve announced that the fed funds will be raised by another quarter percentage point, down from 0.50%. During the meeting, Powell conveyed that disinflationary forces have just started but still require more evidence to be more certain. Monetary policy usually acts with a lag, hence we have to stay tuned to see the full impact of this action.

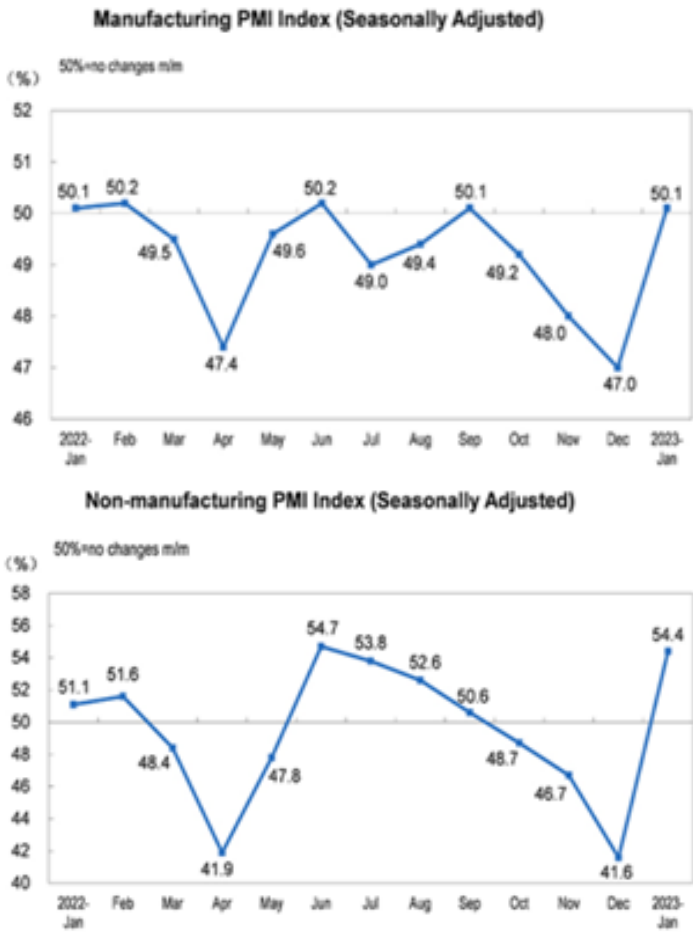
*Source: Bloomberg – Fed Funds Rate*

The red-hot January employment report came out strong with 517,000 nonfarm jobs being added, more than double the consensus forecasted. Unemployment is the lowest since 1969 at 3.4% and hourly wages slowed by 0.4pp to 4.4%. One on hand, the tight labour market might exacerbate the current inflationary environment. On the other, it diminishes the risk of recession and should take some weight off Powell's shoulders as a smaller wage increase eases upward inflationary pressure

*Source: Bloomberg - US Unemployment Rate*

US market indices rallied for another week, showing the market's optimistic reactions to the economic data.

China Market



Source: National Burea of Statistics of China

Both manufacturing and non-manufacturing PMI index rebounded to 50.1% and 54.4% respectively. PMI tends to precede changes in trend and these positive results show that China is heading back to economic expansion after years of sporadic covid outbreaks and stringent movement restrictions which disrupted its economic activities.

Caixin General Manufacturing PMI has also fallen at the softest pace for five months from the easing of containment measures. A slower drop in production volume and purchasing activity and stabilization of the supply chain is offset by the lack of headcounts and higher average input cost. New home sales in China tumbled 32.5% yoy and 48.6% from a month ago. Chinese Lunar New Year had added more pressure on the already sluggish demand and weak purchasing power. This is despite China ramping up efforts to stimulate homebuying and revive the industry such as reducing mortgage rates and loosening financing requirements.

SG Market

Following the FOMC meeting where fed fund rates had increased at a slower pace, Singapore banks went into the red. Net interest margins might gradually normalise from the boost of higher borrowing costs. Although inflation had come down from its peak, we need to be aware that it is still stubbornly well above the healthy range.

The smaller rate hike compared to the past hikes lifted the REITs amid expectations that the Fed will halt its interest rate hikes soon. But on the flip side, the rate expectations caused bank shares to soften.

Company Visits

<TOTM Technologies> | Previously known as Yinda Infocomm, TOTM is focusing on capturing opportunities in the digital identity space. Since November 2020, TOTM had made several acquisitions and value-accretive partnerships, strengthening its biometrics capabilities.

On June 22, TOTM signed a strategic teaming agreement with Presight, a G42 company, to enhance its current product offering. The Group can now tap into this partnership to make inroads into the Middle East and North Africa and APAC region. Towards the year-end, TOTM also forged another partnership with Incode. This next-generation identity verification platform is used by the world's largest financial institutions, governments, marketplaces, hotels, and hospitals. The Group is now the authorized exclusive reseller for its solution in Indonesia.

The Group is trading at a PS and PB of 5.1x and 1.5x respectively.

Business Updates

<Oiltek International> | 2H22 revenue surged 54.3% to RM82.4m on the back of the completion of projects from prior years from the refinery segment and elevated demand for engineering parts. This is offset by lower recognition from the past Indonesian project. Gross margin has declined by 5.8pp due to higher raw material prices and supply chain disruptions. Net profit rose 48.1% to RM7.9m.

Despite the economic uncertainty, demand for Oiltek's solution remains strong with the order book growing by 29.1% to RM209.9m in FY22. It is expected to be completed in the next 18-24 months. The Group is optimistic about its Oil Refinery segment as the population boom continues to uplift demand and the Renewable Energy segment as the world shifts towards a more sustainable energy source.

A final dividend of 1.2cts with a payout ratio of 43.3% is pending for approval. The Group has net cash of RM67.4m and is trading at a PE and PB of 8.2x and 2.0x respectively.

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