This is SAC's weekly newsletter for 10 August 2022. Thank you for reading.

Analysts' Notes

Grand Venture Technology <1H22 earning briefing> | 1H revenue of S$67m increased 25% yoy, supported by growth across all segments. (semicon: +7%, life sciences: +14%, electronics, aerospace and medical: +149%) JDragon added S$3.2m to its aerospace segment. (4 months contribution) However, net profit fell by 16% to S$7.1m. GP and net margin contracted 6pp/5pp to 27% and 10% respectively. Margins are depressed due to higher material & energy costs, underutilised capacities and higher fixed overhead from the acquisition of JDragon and Formach Asia. The Group also incurred S$0.9m in one-off charges (e.g. professional fees, inventory adjustment) in relation to the acquisition. GVT hopes to drive up utilisation rate at its manufacturing facilities in 2H. Its aerospace segment is a key growth area as the Group supplies landing gear systems to Safran, an aircraft equipment manufacturer who has Airbus and Boeing as customers. Airbus has received a large order of 292 A320neo jets from China airlines in July. While orders have slowed for backend semicon equipment, the Group has successfully onboarded new customers, increasing their revenue sources. GVT is also in the midst of onboarding 2 new customers from front end semicon space. The process is still in the qualification phase and significant contribution is unlikely to come in till FY23/24 onwards. *(Lim Shu Rong)*

APAC Realty <1H Results Briefing> | 1H22 revenue decreased by 4.4% yoy, but gross profit increased slightly by 0.2%, due to a more than proportionate (4.9%) decrease in cost of services. Revenue from resale and rental properties declined 9.6%, but this was cushioned by a 4.2% increase in revenue from new home sales. Management has stated that the better than expected brokerage and project marketing performance post cooling measures for 1H22 was due to a lagged effect in revenue recognition; some of the revenue booked in 1H2021 actually related to 4Q21 property transactions. We expect to see a dip in revenue for 2H22, as it is more representative of actual 1H22 performance. An interim dividend of 3.5 cents/sh was declared, which translates into a 9.9% annualized yield and represents a 75% payout ratio of the 1H22 profits. Management targets a 70-80% distribution of profits going forward, subject to capital needs. The Group has seen a marginal drop in market share across all market segments, which the management has stated is due to the result of its agents' reduced productivity post cooling measures; which is currently being remedied through training courses and recruitment of fresh talent, and these measures will take some time to bear fruit.

Management is of the view that rising land and construction costs and strong demand from the property upgraders' market will continue to hold private property prices up, amidst interest rate hikes and a robust 2023 supply pipeline of private residential properties (19,958 new units). A bulk of the flats set to MOP this year are in prime locations, which will push average HDB resale prices up. Therefore, we expect property prices to rise into 2023, but the transaction volume to moderate with the prevailing economic uncertainties. Foreign buyers have played a role in elevating overall demand, but transactions are still mainly in the high-end property segment.

The management plans to focus on the acquisition of a majority stake in its Vietnamese associate in

2H22, in order to consolidate it as a subsidiary to supplement the Group's revenue going forward. The Group sees high revenue upside in the Indonesian and Vietnamese markets, and will be focusing on these two key overseas markets going forward. *(Christopher Ong)*

Elite Commercial REIT <1H results briefing> | 1H22 revenue and NPI increased by 17.7% yoy, due to a full half year rental contribution from its new properties acquired in March 2021. The mid-year asset revaluation has resulted in a 3.5% increase in valuation to £518m to reflect the longer lease terms with the break option removed. The revaluation was dampened by two vacant properties, Sidlaw House and John Street, as well as 2 more lease break options being exercised.

Portfolio occupancy fell from 100% in FY21 to 98% in 1H22, due to the vacant Sidlaw House and John Street properties. Management has stated that it plans to divest its John Street property after reinstating it to its original condition, pending negotiations to seek a substantial financial compensation from DWP to achieve this. Management plans to use the divestment proceeds from John Street for loan repayment, to increase the debt headroom for future value accretive acquisitions. For its Sidlaw House property which was recently vacated in end-June, management is primarily looking to reletting the property as office space, but is also considering alternative uses of the property – through conversion to either a logistics facility or life science campus, to take advantage of the active demand in these sectors.

In view of the recent 50bp hike in interest rates in the UK, and with a further 100bps hike being expected by the end of the year, we think that Elite's built-in inflation-linked rental uplifts will outweigh the effect of increased borrowing rates going forward. *(Christopher Ong)*

PropNex <2Q/1H results briefing> | 2Q22 revenue, gross profit and net profit fell 11.4%, 15% and 26.2% yoy respectively. The more than proportionate fall in net profit was mainly due to a S$1m increase in impairment loss on trade and other receivables, which was due to construction delays, which resulted in delay in payment of agency commission from the developers. This impairment loss will however, be reversed when developers gain access to project funds and make payments upon TOP. We expect mass reversals of these impairments to occur in 2023.

1H22 agency revenue increased 12.6% yoy, while project marketing revenue decreased 18.5% yoy. This is in line with the fact that there were 40% fewer new home transactions yoy in 1H22, likely caused by developers holding back launches in lieu of the newly introduced property cooling measures. There were substantially more launches qoq for 2Q22, but due to the time lag in revenue recognition, we expect to see improved results in 2H22 reflecting the better 2Q performance.

Management is positive about FY2023 outlook. There is a robust supply pipeline of 17,394 private residential units in 2023, which bodes well for the project marketing business segment. Furthermore, as land and construction costs have increased rapidly, we expect the increased ASP to boost PropNex's top line. *(Christopher Ong)*

Delfi <1H22 Earnings Call> | Revenue grew 17% yoy to US$246.3m amidst the challenging macro-economic environment, surpassing pre-covid levels. Drivers of this growth were 1) Strong recovery of consumer sentiment and demand in Indonesia and the Philippines; 2) Malaysia's strong performance in the distribution of consumer and healthcare categories; 3) Comeback of own premium brands (+20% yoy) and agency brands (+12.2%); 4) Success in targeting a specific group of consumers, Gen-Zs and Millenials; 5) Building up of distribution channels, Modern and General Trades.

Gross margin edge higher to 29.4% (+0.4%) due to higher sales in the premium products and price increase to pass on higher raw material costs while EBITDA margins improved by 1.4% pt from strict measures taken to reduce operating expenses. Net profit gained 57.6% yoy to US$19.4m.

Delfi has net cash of US$81.4m due to the controlled spending in capex over the past 2 years but is focused on catching on with the demand arising from the resumption of economic activities by building more capex and possibly making a foray into new market. The Group has declared an interim dividend of US1.58 cents. *(Yeo Peng Joon)*

Yangzijiang Shipbuilding <1H22 Earnings Call> | Despite the tight shipyard capacity, 1H22 shipbuilding revenue rose 78% yoy to RMB8.5bn, as the vessels delivered were of higher value. Shipbuilding margin recovered to 13% (2H21: 11%). And with the low-margined orders largely completed, margins could return to 18%-20%, aided by 1) declining steel prices (YTD: -42.7%); 2) still tight shipbuilding capacity; and 3) YZJS is eyeing contracts to construct higher-valued LNG carriers. Management is confident of new order win of US$2bn for the full year 2022 (YTD US$1.09 bn). Orders on hand of US$8.13bn included five LNG/LPG carriers, a segment that calls for strong design and technology knowhow, and is dominated by the Korean yards. 1H22 group revenue rose 70% to RMB9.7bn, and net profit from continuing operations grew 32.3% to RMB1.2bn, in sharp contrast to the Korean yards. The stock is priced at annualized FY22E EV/EBITDA of 5.7x and 1.1x P/B. *(Peggy Mak)*

HG Metal <Management meeting> | 1H22 revenue (+27% yoy) and net profit (+12%) was affected by a slowdown in construction activities from May, when the authority stepped up checks at construction sites. However, demand remains intact, as construction contract awarded year-to-May has reached S$11bn, about 34%-40% of total award of S$27-32bn for FY22E. These awards translate into orders and progress payments in the next 12 months. Still its valuation is inexpensive at P/B of 0.5x, net debt/EBITDA at 0.7x, and annualize FY22E EV/EBITDA of 2.9x.

The near-term concern for construction steel suppliers is the decline in the price of steel rebars, which fell ~22% from the recent peak in May 2022 and ~10% from end 2021. Steel rebar price for government projects is subject to a fluctuation clause, which is helpful when prices are rising, but might hurt when market prices fall sharply. To cope with any price shock, HGM has maintained low inventory level of 129 days, and sales/inventory of 3.1x. *(Peggy Mak)*