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This is SAC weekly newsletter for 11 May 2022. Thank you for reading.

### Market Moves

Though the March quarter earnings reports thus far have generally beat expectations, Singapore market remains overshadowed by the overarching worries of inflation and recession.

China's third largest property developer, Sunac, defaulted on US\$29.5m interest payment on the US\$742m Oct 2023 bond, and would miss payments of principal and interest for all outstanding notes. Low contracted sales and difficulty in accessing financing led to cash flow constraints, raising the systemic risks in the financial system.

US April's inflation of 8.3% added to risks of a step-up in interest rate hikes. The stronger US\$ versus Asian currencies have prompted Asian central banks to act to arrest capital outflows. Malaysia Bank Negara hiked the overnight policy rate by 25bp to 2.0%, its first since Jan 2018. Malaysia also raised the minimum wage by 25% to RM1,500, adding to margin pressure for the Malaysian manufacturers. Tech stocks and highly geared companies will face the brunt of higher interest rates. REITs could also face negative carry if cap rates fall below interest costs.

### Analysts' Notes

**SIA Engineering <FY22 results>** | There were two positive takeaways from this results: 1) FY22 revenue of S\$566m was 56% of FY19 level, though number of flights handled averaged 29% of pre-COVID level; and 2) It achieved EBIT breakeven in 2H22, even if we exclude government support of ~S\$29m (our estimate). The recovery in MRO demand was more pronounced in 4Q22, backed by return of air travel as COVID controls were eased. Flight volume continued to climb. April volume reached 45% of pre-COVID level. SIA plans to raise capacity to 61% of pre-COVID level by May 2022. YTD March, Changi Airport's commercial aircraft movements grew 62.3% yoy. Even with government support tapering off by July 2022 (we estimate S\$12m in FY23 vs S\$94m in FY22), and absence of tax-losses available, we believe SIAEC can maintain FY23E net profit at ~S\$70m, with revenue at 78% of pre-COVID level. IATA expects global flight recovery of up to 83% of 2019 levels by 2023. We believe this is priced into SIAEC's FY23E PE ex cash of 32x and 1.7x PBR. Net cash of S\$623m is equivalent to S\$0.56/sh. **(Peggy Mak)**

**PropNex <1Q22 results>** | 1Q22 results were in line. Revenue rose 9.5% yoy and net profit fell 6.1% due to a lull of new launches. Revenue fell 0.2% qoq, which was impressive considering 4Q21 industry-wide

volume was down over 3Q21 - HDB resale -5.8%, private resale -11.5% and private new units -15.0%. This implies PropNex gained market share and sales value per unit had risen markedly. Property transactions recorded are booked as sales revenue in the following one to two quarters when the transactions are completed.

2Q22 revenue is likely to taper, due to further decline in home sales volume in 1Q22. But we expect volume to pick up from 3Q22, with the ramp-up in new launches, and record 31,325 HDB units reaching the 5-year minimum occupancy period. PropNex estimated that FY22 industry volume will fall 5-10% for HDB resale, 20-25% for private resale units and 20-30% for private new units. Its agency force, which exceeds 11,000, is the largest and continues to grow. The scale gives it an edge in 1) economies of scale in sharing of data and resources; 2) garnering marketing roles for new launches and en-bloc sales; and 3) attract even more agents to sign on. The near-term risks are 1) mortgage rates have crept up from median 1.15% in Dec 21 to 2.5% currently; 2) higher prices of new launches hurting affordability; and 3) inflationary-push recession risks. Maintain hold call and target price of S\$1.78. **(Peggy Mak)**

**BRC Asia <1H22 results>** | Earnings continued to ride on the rebound in construction activities post COVID. 1H22 revenue grew 61.0% yoy, and net profit +108%, buoyed by higher steel prices and volume. Gross margin rose from 8.1% in 1H21 to 8.7% in 1H22 with a S\$1.8m reversal of provision for onerous contracts. Singapore remains its key market (85.5% of revenue) as it is the dominant supplier of rebars for the construction sector. We note that BRC has raised its sales to China and HK (6.0% of sales) as China cuts its steel output. Net gearing has improved to 0.8x (from 1.17x at end 2021) with net debt to EBITDA of 2.6x (end 21: 4.3x). 1H22 annualised ROIC of 27.4% cushions the risk of higher interest rates. Maintain HOLD at TP of S\$1.92. BRC trades at 7x FY22E PE and 7.3x EV/EBITDA. **(Peggy Mak)**

**Riverstone <1Q22 results>** | Beats the market with a marginal -1.9% qoq in 1Q22 revenue and -1.8% in net profit. It has been able to maintain margins due to a 42% share of revenue from cleanroom segment (where ASP remains stable at US\$100-110 per '000 pcs) and decline in raw material costs. Riverstone expects higher volume to drive qoq growth, as higher-margined cleanroom gloves are increasingly being deployed by pharmaceutical companies. The prosperity tax has little impact on FY22 earnings as it has adequate reinvestment allowance to offset. **(Peggy Mak)**

**UMS <Analyst Briefing>** | UMS's 1Q revenue was up 71% yoy to S\$84.7m and net profit increased 26% yoy on higher semiconductor sales, consolidation of JEP's results, and larger contributions from other subsidiaries (Starke and Kalf). Gross margin (consisting of just raw material costs) is comparable to FY21 at 51%. Management maintains that the current margin is sustainable as the Group can better navigate supply chain disruptions. Price increase from raw materials can be passed on to customers, although not fully, to maintain a good working relationship. As for its integrated systems, UMS is allowed to deliver partially-built systems to its customer even with some parts unavailable. The missing parts will be shipped directly to its customers once available. Tight labor supply is the main limiting factor for production output. Higher labor costs are expected to attract skilled workers. As for its pioneer tax status, the Group has since met the stipulated local employee criteria of 80%. The appeal is still pending results. **(Lim Shu Rong)**

**Grand Venture Technology <1Q22 results>** | GVT has a weaker 1Q. While 1Q revenue grew 41% yoy (Semiconductor: +34%, Life sciences: +29%, Electronics etc: +94%) and net profit was up 9% yoy, gross margin was 4ppt to 28%, impacted by higher materials and energy costs. The Group looks to pass on some costs to its customers. Slowed economic activities in China are expected to lower utilization rates for GVT's own Suzhou factory as well as that of its newly acquired subsidiary, JDragon, which contributes to the Group's aerospace business. Electricity tariff surcharge imposed in 1H in Malaysia is likely to extend and increase in 2H22 following the surge in oil prices above US\$100/barrel. We expect this to add further pressure on the Group's margin. On a positive note, GVT is likely to ramp up its production from 2Q onwards as TSMC commences 3nm chip production in 2H22. Maintain BUY at lower TP of S\$1.08  
(*Lim Shu Rong*)

### Company News

**Azeus Systems** is developing a Central Electronic Recordkeeping system for Hong Kong government under a ~S\$180m contract. The system will use Convene Records, a software product developed by Azeus. Post-implementation, the Group will provide support and maintenance services for 10 years. The contract starts in May 2022 and ends in FY2037.



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