SG Weekly (6 Feb - 10 Feb 2023)

Index	Weekly %	YTD %
S&P 500	-0.50	+7.76
NASDAQ	-1.42	+13.62
HSI	-0.15	+6.99
STI	-0.75	+2.42

All indices are down for the week but still up YTD.

US Market

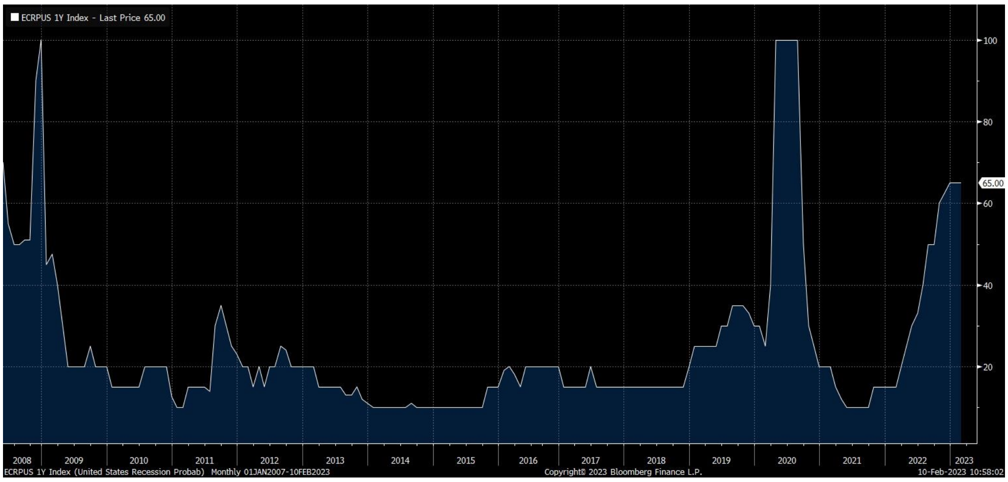
Source: Bloomberg – S&P500 5-year

Source: Bloomberg – NASDAQ 5-year

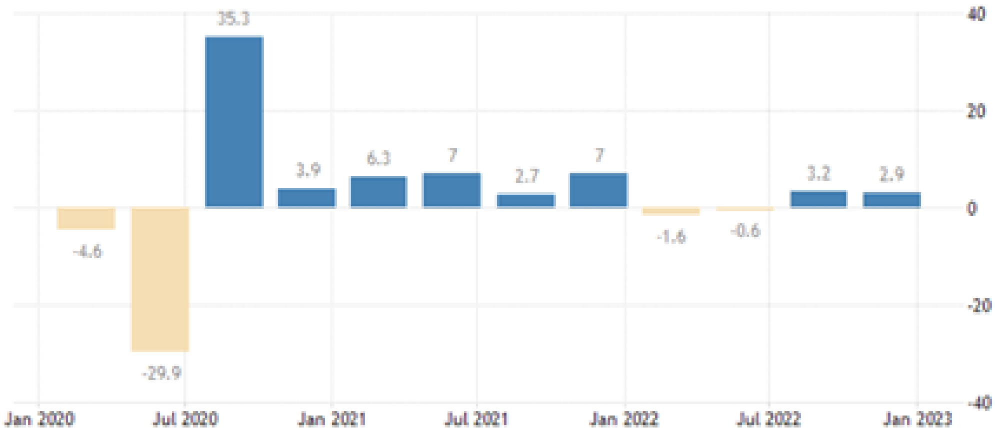
The 5-yr and 10-yr PE of S&P500 stands at 22.0x and 20.2x respectively while NASDAQ is at 36.1x and 33.0x respectively. The current valuation of S&P500 (19.7x) and NASDAQ (31.7x) shows that the market is currently undervalued in terms of PE.

Despite the S&P500 shedding c.27% from its peak in Jan 2022, it has recovered significantly from its trough in Oct 2022 by c.20%. It is still c.15% lower from its highest point.

S&P500 ended 1% down in the last week with relatively no notable economic releases.

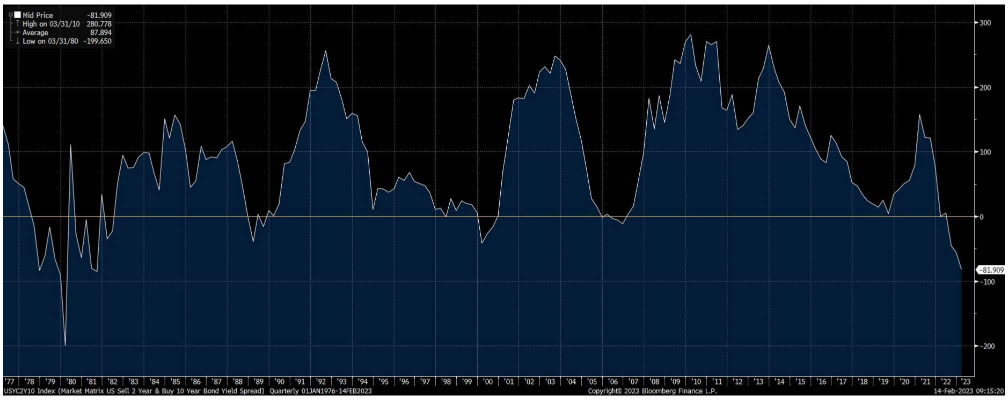


Source: Bloomberg – Probability of Recession



Source: Trading Economics - United States GDP Growth Rate

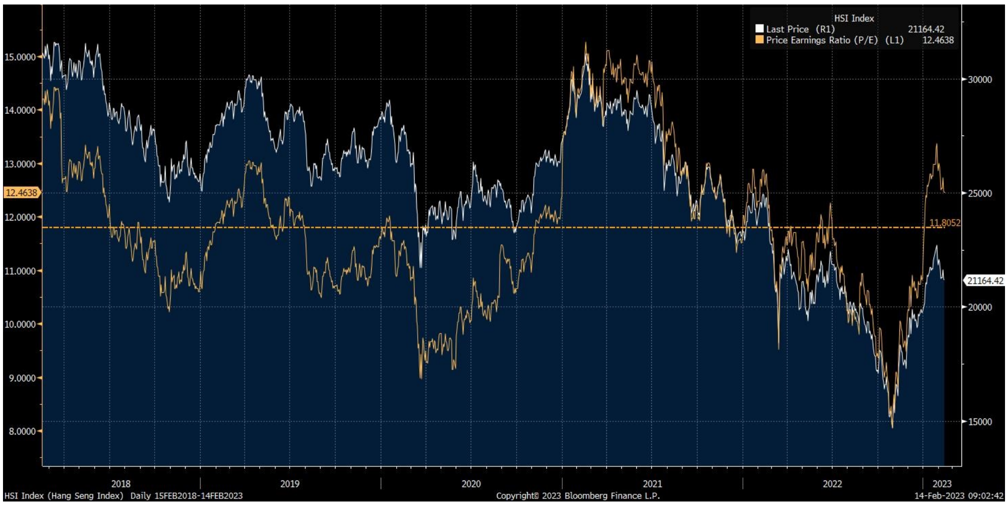
Economists have been constantly increasing their recession probability forecast to 65%. Ignoring the initial spike in the recession probability during the start of covid, it is the highest since 2008. The two sequential negative quarters of GDP growth in 2022 should already set people to think that we are already in one, however, some US government entities and economists refuse to accept the historical technical definition and hence, is still a hot debate on the streets.



Source: Fred Economic Data

The yield curve slumped further to a degree we have never seen for more than three decades due to the January employment report from the previous week. Many are fearful that the red-hot data will push inflation higher and thus, expects the Fed to raise more to subdue inflation.

China Market



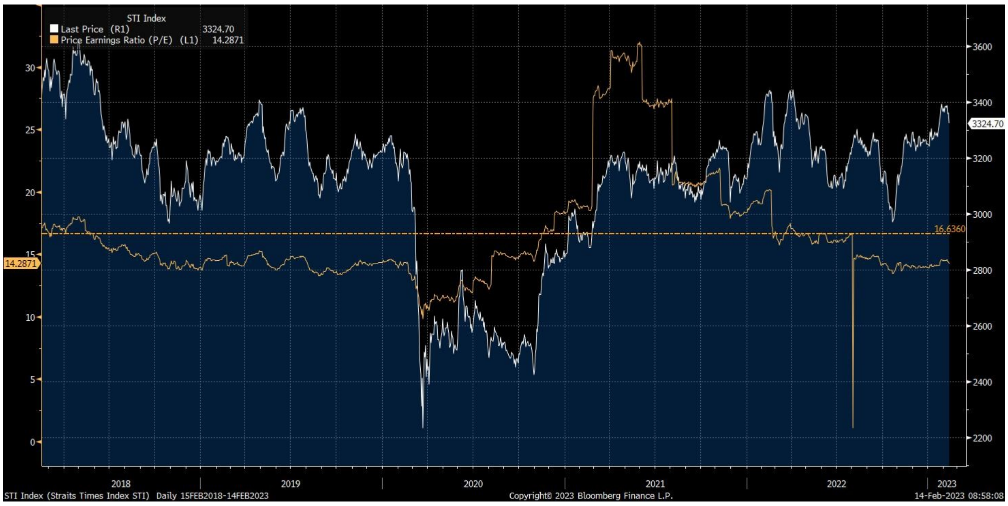
Source: Bloomberg – HSI 5-year

The 5-yr and 10-yr PE of HSI stands at 11.8x and 12.0x respectively. The current valuation of HSI (12.5x) shows that the market is currently fairly valued in terms of PE.

The balloon controversy had deteriorated its relationship with the US as tension rises. Following the restriction of exports of advanced chips from the US to China, the US last week announced they will sanction companies with parts found from the remains of the exploded balloon to weaken China's military technology equipment.

China's CPI rose by 2.1% in January, up from 1.8% in December on the back of Chinese Lunar New Year demand. As compared to the US and Europe region, China's inflation is at a healthy level.

SG Market



Source: Bloomberg – STI 5-year

The 5-yr and 10-yr PE of STI stands at 16.6x and 15.9x respectively. The current valuation (14.3x) shows that the market is currently undervalued in terms of PE.

Total retail sales excluding motor vehicles and F&B sales are up 7.4% and 13.9% yoy respectively while the seasonality-adjusted mom numbers are flat in December 2022. Demand for bags & footwear and alcoholic products were the main drivers for the growth. Food catering experienced a 115.8% yoy growth on the back of returning of inbound tourism, an increase in MICE events, and in-flight catering.

International Arrivals in Dec 2022 are still at about half of Dec 2019 levels. 2022 visitor numbers add up to be 6.3m, exceeding the STB forecast of 4-6m. STB does not anticipate 2023 numbers to return to pre covid levels yet (2023 target: 12-14m). Increasing connectivity and pent-up demand from China will push growth further.

Company Visits

<Koyo International> | is a mechanical and electrical ("M&E") engineering service provider, catering to a diverse range of clients from various industries, such as construction, marine, oil and gas, industrial, pharmaceutical, and the government sector.

It has three main business segments: 1) Mechanical Engineering (55% of 1H22 revenue); 2) Electrical Engineering (27% of 1H22 revenue); 3) Facilities Management (18 % of 1H22 revenue).

1H22 revenue rose by 33% to S$18m. The Group had been in the red for 2 consecutive quarters due to lower margins (down 9.1pp to 16.2% in 1H22) from old contracts which are delayed due to covid, lack of headcount in the construction sector and rising input cost. The Group is looking to engage subcontractors to tackle the shortage, which might further lower the gross margin.

Koyo clinched a whopping S$155m contract with the Land Transport Authority on April 2022 for the Supply and Installation of Mechanical Services for the Johor Bahru – Singapore Rapid Transit System (RTS) Link station, tunnels and Customs, Immigration, and Quarantine (CIQ) Building ("Contract"). The current order book amounts to S$288m, all of which are expected to be completed by 2026. Dividing the order book evenly into 4 years, Koyo will be collecting S$72m each year, more than double its current LTM revenue. If Koyo successfully streamlines its operation and wins new mechanical engineering contracts which are higher in margins (c.30%), it might go back to the black.

The Group is trading at a PB of 0.5x.

Business Updates

<Oiltek International> | secured RM19.4m from Indonesia for a new downstream processing plant, bringing the total order book to RM229.3m. It is expected to be fulfilled in the next 18-24 months. Assuming no contracts be won, Oiltek will need to complete 71.4% of the current order book to maintain its FY22 revenue (RM163.7m) and subsequently secure RM92.8m in FY23E to maintain its FY22 revenue. In FY22, RM196.1m are clinched and that fiscal year profit margin was 7.7%.

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.

Oiltek business is cash-generating and is trading at a PE and PB of 8.2x and 2.0x respectively.

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