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This is SAC weekly newsletter for 18 May 2022. Thank you for reading.

Market Moves

The risk-off sentiment is fast erasing the gains that STI made this year. YTD, STI is up 2.3%, held up by the three banks. The market is also pricing in a downward revision to the full year's GDP growth projections of 3 to 5% when MTI announce the 1Q22 GDP performance on 25 May. The bearish mood is due to a weaker outlook in China, higher energy prices and commodity prices, and wage-push inflation that have raised the cost of doing business and could lead to belt tightening for the consumers.

A defensive sector in this inflationary environment is the building material suppliers who have fluctuation clauses built into their contracts. They are likely to benefit from the ramp up in infrastructure and housing projects that were delayed. The tenders for the refurbishments of the two integrated resorts have commenced, and Changi Airport Terminal 5 is back on the drawing block.

We also think the companies with assets in Indonesia will be able to ride on the commodity-led recovery in the country. 1Q22 FDI in Indonesia grew 28.5% yoy to US$19.6b. Excluding O&G and banks, FDI rose 31.8% yoy to US$10.2b. Total exports rose 38.7% to US$93.5b in the first four months of this year, also led by strong commodity prices. The only drawback is uncertainty caused by turnabouts in policy measures, such as the ban on crude palm oil and downstream products that could have significant adverse impact on the sector in the current quarter. ***(Peggy Mak)***

Analysts' Notes

CSE Global <Analyst Briefing> | The Group faces headwind from part shortages. Shutdown of manufacturing facilities in China due to COVID measures and Russia-Ukraine conflict reduce the availability of components to vendors. Delivery of equipment to the Group now takes 6-9 months as compared to 4 months previously. We expect slower work done and lower utilisation going forward hence, a delay in recognition of revenue and a hit to margins. Meanwhile, material inflation passed through from vendors can generally be passed on to customers. Robust order intake underpins a healthy growth outlook. Efforts in growing its infrastructure project pipeline are paying off as order intake for 1Q jumped 187% yoy/242% qoq to S$110m. The Group secured a S$35m major contract in the quarter to provide engineering solutions for a data centre. This marks the Group's foray into a new market segment and with plans from the customer to construct more data centres, there are more opportunities for the Group to expand further in that market. ***(Lim Shu Rong)***

Marco Polo Marine <Analyst Briefing> | 1H revenue climbed 31% yoy on the back of higher volume, higher charter activities (+12%), and value of repair works carried out (+46%). Gross margin improved 6ppt from 24% due to more complex repairs done and higher charter rates. We expect 2H performance to be better than 1H. OSVs are back in operation supporting windfarms in Taiwan after the monsoon season. The Group has added 1 additional OSV to service the region. PKRO, acquired by MPM on May 22, contributes another 2 OSVs, chartered to Taiwanese windfarms. Margin for windfarm projects is higher than that of O&G. Following the completion of dry dock 1 extension on Feb 22, the Group now has increased capacity to take on more and bigger merchant vessels at their Batam shipyard. While bigger vessels command larger contract value, margins depend more on the complexity of work done. The Group is also benefitting from China's port congestion, as more vessels seeking maintenance divert away from China's ports. We can expect its yard utilisation to go higher than its 2Q of 87%. ***(Lim Shu Rong)***

UG Healthcare <3Q22 earnings update> | Revenue decline of 31.2% yoy was no surprise, when measured against an exceptionally strong 3Q21 (Jan-Mar 21) at the height of COVID cases in the developed countries. Revenue has since normalized over the past three quarters. ASP is back to pre-COVID level and distributors have resumed orders. 3Q revenue was 12.4% higher qoq, with capacity caps lifted at Malaysian plants in late 2021. Net profit was flat qoq at S$10.7m. Gross margin, at 31.8%, was aided by lower cost of raw material for the production of nitrile gloves. However, competitive pressure from Chinese manufacturers still looms, though UG is better-positioned as it could outsource manufacturing and earn a distribution margin through house brands Uniglove. In comparison, Hartalega's 4Q22 (Mar) revenue fell 58% yoy, pretax profit down 86% and a net loss of RM198m, due to the prosperity tax in Malaysia. We believe UG is underrated at 0.6x of book value S$0.358/sh and FY22E PE of 3.1x or 1.3x ex cash. ***(Peggy Mak)***

First REIT <asset divestment> | Intends to divest the Surabaya hospital at book and market valuation of S$40.9m to PT Siloam International Hospitals Tbk. The disposal will lower NPI by S$4m. ~S$19m from the S$40.9m proceeds will be used to pare down borrowings. First REIT has earlier entered into a settlement agreement for the termination of development works on a new hospital in Surabaya for S$30.6m, which will be received by 30 Jun 2022. The proceeds could help to lower borrowings, hence lowering cost of debt (currently at 3.4%), or deployed for further investments or pay out to unitholders. Maintain HOLD. ***(Peggy Mak)***

Company News

Silverlake Axis | Signed digital enhancement contracts with 32 existing and new customers including banks and retail chains from various countries. The contracts have a total value of RM91m (S$28.7m), to be executed over the next 12-18 months. This brings the Group's total deal pipeline to RM1.7b (S$0.5b).

Hwa Hong | Some existing members of the controlling Ong family, together with fund managed by Dymon Asia Private Equity (Singapore) Pte Ltd and other third parties, launched a general offer at S$0.37 per share, or 29.8% premium to NAV of S$0.285. It has received irrevocable undertakings for 24.3% shareholdings. The existing free float is ~34.6%, including City Developments' 5.1%. Hwa Hong's core business is property investments in Singapore and UK. Its investment properties are conservatively stated at cost less accumulated depreciation and any accumulated impairment losses. Still, FY21 ROE at 3.1% is lower than Singapore Land 4.0%, Tuan Sing 6.6% and Guocoland 3.4%. ***(Peggy Mak)***