SAC Year End Review 2018

Date: 17th December 2018

Source: SAC Advisors

2018 – a year in review and look ahead

The trade war between US and China dominated headlines in 2018, with US President Donald Trump starting the dispute with China earlier this year, accusing the Chinese of “unfair” trade practices and intellectual property theft. While the recent conclusion of the G20 summit ended on a positive note with US President Donald Trump and Chinese President Xi Jinping agreeing to suspend new trade tariffs for 90 days, we see the escalation of new trade tariffs as the biggest threat to the growth of the world economy in the year ahead. We are also seeing investor’s general fatigue toward news of tariff hikes and think the market might be relatively more resilient toward news of additional tariff hikes between the two largest economies in the world. For 2019, we believe geo-political issues will continue to dominate headlines. In this year end report, we recap significant events in 2018, highlight some key emerging trends, review the Singapore market and local trends and end with highlighting the stock picks in our conviction list.

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Recapping 2018

US-China Trade War

The US trade war dominated headlines for much of 2018, and is expected to continue doing so in 2019. The trade war began at the beginning of the year when US President Donald Trump imposed a 30% tariff on foreign solar panels. China, who is the world's largest producer of solar panels decried the tariffs. Washington eventually announced their decision to impose tariffs on US$250 billion worth of Chinese imports and Beijing has responded similarly. Despite all the talk of US tariffs, the US has been slow in the actual implementation of this, with only US$200 billion in Chinese imports affected by a 10% tariff so far. This is expected to be increased to 25% by next year. At the moment, the world awaits concession from either side to solve the trade dispute via resumption of trade negotiations. We think Beijing is most likely expected to concede given their trade surplus with the US. Though this is made complicated by the recent arrest of Huawei's CFO Meng Wanzhou.

Should the US and China fail to reach a compromise, we could see further escalation from both sides with the US most likely to impose tariffs on an additional US$250 billion of Chinese imports. We think this could force Beijing to resort to other methods of retaliation since tariffs have been applied to almost all its US exports. One of them is to devalue their currency.

US Federal Reserve policy normalisation sparks contrasting market reactions

The Fed continued tightening to return to pre-crisis monetary policy with four rate hikes and gradual unwinding of its balance sheet. Its actions have elicited mixed reactions from the market. Opponents such as US President Trump expressed discontent with higher rates and viewed it as inappropriate policy. Proponents of the rate hike however, viewed the move as appropriate to unwind the post-2008 stimulus and afford the Fed some leeway to react to possible future crises.

Of the rate hikes in 2018, one in particular stood out. After the Fed raised rates in September, treasury yields spiked on 4 October which coincided with a correction in the US stock markets. The correction sparked contrasting opinions from different market observers. Some observers perceived that equity markets were spooked by the yields due to a rise in borrowing costs and a heftier discount factor. US Treasury Secretary Mnuchin spoke of the correction as 'healthy' in the longer term bull trend. Goldman Sachs suspected a fall in US growth expectations in an otherwise, great year for US economic growth. While 'Bond King' Jeffery Gundlach took it as confirmation of the end in a three-decade bull run for the bond market and insisted rates did not rise for the 'right reasons'.

Crises in emerging markets

We see rising interest rates in the US perpetuating three major impact on emerging economies. First, increasing capital flight from emerging economies to the US. Secondly, worsened capital accounts, and third, emerging market firms with dollar-denominated debt finding it harder to service their loans. These three factors worked in tandem to create a negative self-reinforcing cycle. Of the emerging markets, crises in Argentina, Turkey and Indonesia were the most impacted by capital flight.

Argentina has responded to the crisis by acquiring a US$50 billion loan from the International Monetary Fund. In a bid to further strengthen its fiscal position, it also imposed austerity measures with the aim of achieving a balanced budget. The austerity measures included higher export taxes on selected goods and the abolishment of government ministries. Separately, the Central Bank of Argentina has also responded through their monetary policy by hiking interest rates to 60%.

In Turkey, the central bank's response was comparatively slower, possibly due to compromised central bank independence. Market perception of the central bank's compromised independence stemmed from two factors.

2018 Recap

First, the central bank was relatively restrained in raising interest rates despite the steep depreciation of the Lira against the greenback. Second, Turkish President Erdogan stepped up his strong opposition to rate hikes. In September, the central bank finally raised interest rates to 24% which eventually aided the recovery of the Lira.

Indonesia has suffered the most among its Asian peers due to its heavier load of dollar-denominated debt as a percentage of GDP. Due to its predicament, Bank Indonesia has undertaken continuous effort to manage its situation. It has raised interest rates on six different occasions in 2018 to reach 6%. Fortunately, the country's growth has also fared better in 2018, as compared to the situation two decades ago in the Asian Financial Crisis. Despite already spending around US$5.5 billion on bond purchases this year in a bid to shore up their currency, Bank Indonesia still has substantial foreign reserves of US$117.2 billion to fend off speculators.

Brexit Deal?

Negotiations for a viable agreement for Britain's exit from the European Union ("**EU**") have been lengthened by the rejection of the 'Irish Backstop' by Britain's politicians. If unresolved, the UK could face a hard Brexit – a departure from the union without an exit treaty or transition agreement.

Ideally, the 'Irish Backstop' would prevent, under all circumstances, a hard border from emerging between Northern Ireland and the Republic of Ireland. Britain and the EU agree on the need for the backstop but have yet to arrive at a viable, permanent solution. So far, the proposed solutions would either threaten Britain's sovereignty or violate EU member regulations. The deadlock in negotiations means that the future of the UK remains uncertain. In a desperate bid to reach a compromise with the EU, British Prime Minister Theresa May has agreed for the UK to remain in EU's customs union until a solution is found. However, this arrangement has been met with backlash from UK politicians because it exposes the UK to an indefinite commitment. That is, if no solution can be found, the UK will be bound to the customs union indefinitely. In our view, despite all the noise over the last few years, nothing much has changed since Brexit referendum in 2016.

Italy's new populist government and its fiscal challenge to the EU

After being elected in March this year, Italy's populist government has threatened to destabilise the EU with their fiscal plans. Both the Five Star Movement and the League campaigned on radical changes to Italy's social and economic policies. After coming into power, they fulfilled their election pledge by proposing in their budget draft a monthly basic income for the unemployed, lowering the retirement age, and distributing more attractive handouts to pensioners. Their fiscal plan however, was seen as unsustainable and worsens Italy's already high debt-to-GDP ratio. Concerns over Italy's ability to reach a compromise with the EU saw a spike in Italian bond yields.

Worries of a possible exit from the EU has also surfaced after the League proposed the introduction of mini-BoTs. The proposed mini-BoTs are small Euro denominated, non-interest bearing Treasury bills. They are also meant to be printed, a bearer security, and secured by tax revenue. According to the League, the proposed mini-BoTs would help finance Rome's deficit. However, mini-BoTs have been viewed as a potential parallel currency which could ease Rome into an exit from the EU. While the Italian distress seemed to have largely be confined to Italy's markets, a contagion cannot be totally dismissed.

As of 12 Dec 2018		1-month return	YTD Return
EQUITY INDICES			
Developed			
S&P 500	2,633.08	-5.12%	-1.52%
FTSE 100	6,778.11	-4.22%	-11.83%
Nikkei 225	21,199.99	-4.72%	-6.87%
Hang Seng Index	25,648.82	0.31%	-14.27%
Straits Times Index	3,073.08	-0.11%	-9.69%
Emerging			
KOSPI	2,044	-2.02%	-17.16%
SHCOMP	2,582.145	-0.63%	-21.92%
SENSEX	35,064.6	-0.27%	2.96%
IBOV	88,115.07	2.89%	15.33%
CURRENCIES			
EUR/USD	1.143	1.89%	-4.79%
USD/CNY	6.8918	-1.03%	-5.59%
GBP/USD	1.2746	-0.80%	-5.68%
COMMODITIES (in USD)			
Gold per oz.	1,249.18	3.25%	-4.13%
Oil (WTI)	52.51	-12.76%	-13.09%
BONDS (%, % points)			
US Treasury 10-year Yield	2.8378	0.3441	-0.4324
JGB 10-year Yield	0.059	0.063	-0.011
German Bund 10-year Yield	0.34	0.21	-0.04
CRYPTOCURRENCIES (in USD)			
Bitcoin	3,529.65	-44.06%	-75.34%
Ripple	0.3048	-40.87%	-84.49%
Ethereum	91.81	-55.84%	-87.61%

Emerging Trends

For 2019, we see two main trends continuing from 2018.

(i) Electric and autonomous vehicles; and
(ii) Cannabis / pot growth.

2019 Emerging Trends

(i) Electric and autonomous vehicles

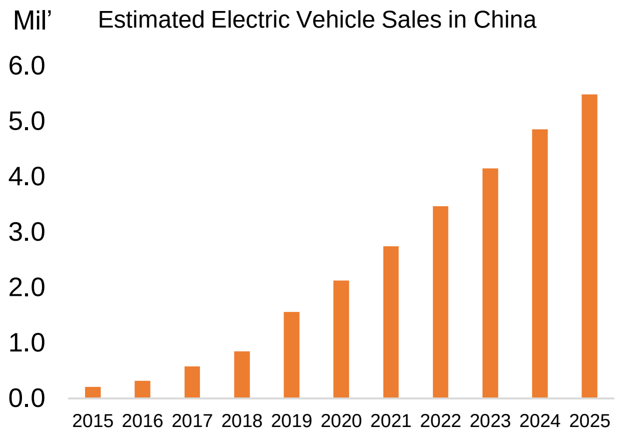
In 2019, we see the sale of electric vehicles ("**EV**") surpassing that of 2018 as the world's largest market for EV (according to a McKinsey estimate) – China - pushes through with the development of electric vehicles. The Chinese government is encouraging this through a combination of regulation and subsidies.

In June this year, China's National Development and Reform Commission and China Construction Bank announced a new US$47 billion fund that's designed to support the development of EV technologies and other high-tech industries. There are now a total of more than 487 EV manufacturers in China. Regional governments are also supporting this effort by making similar funding commitments.

The Shanghai government has announced that Tesla is on track to begin production of EV at its factory in China in the second half of 2019. In July, Tesla chief executive Elon Musk signed an agreement in Shanghai to open Tesla's "Gigafactory 3" there, with capacity to produce 500,000 electric vehicles a year.

And the momentum for EV is only set to increase, with the Wall Street Journal projecting sales in the largest market to increase by an annualised rate of 58.3% through to 2020 and triple by 2025.

While recent concerns have surfaced that the EV market may face a slowdown as the Chinese government scales back on some of the current initiatives further down the line, we see the move as beneficial for the larger players in the market due to the high cost of EV research and development. The move will benefit players with a strong financial balance sheet like Tesla and recently-listed NIO.



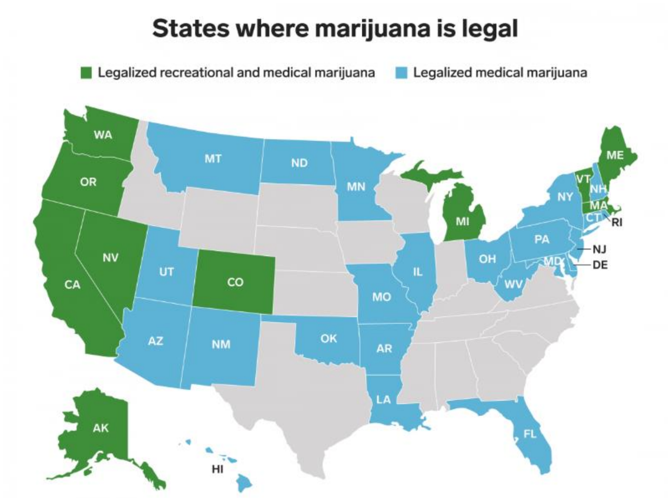
Source: The Wall Street Journal, IHS Markit, SAC Advisors

(ii) Cannabis growth and the path to mainstream adoption

While Cryptocurrencies like Bitcoin overwhelmingly beat the market in 2017 with their dizzying rise, cannabis stocks look set to take the crown for 2018. Their outperformance this year against the broader market have seen their valuations soar to frenzy levels. The wild trading in shares of marijuana companies have seen some of them trade at triple digit price-to-sales valuation. Canadian marijuana company Tilray Inc. for instance saw their market capitalisation exceed that of American Airlines Group Inc in September this year.

As marijuana becomes increasingly mainstream, states are increasingly legalising either recreational or medical marijuana or both. In January this year, Vermont became the first state in the US this year to legalise marijuana through the legislature. The move allows the possession and recreational consumption of marijuana for adults above the age of 21.

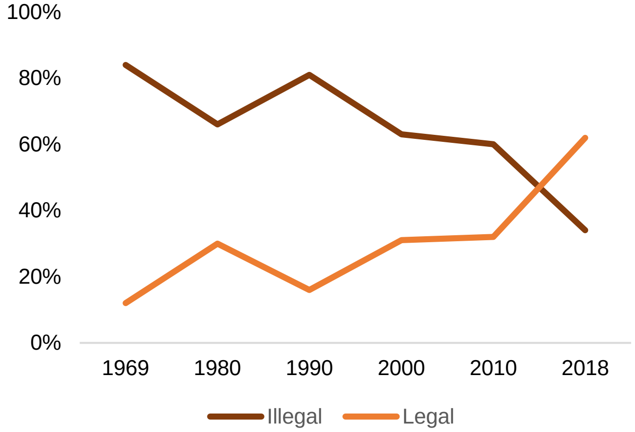
Since the Vermont vote, this has sparked a “marijuana legalization wave” that saw different state legalising the use of marijuana. Just last month, Michigan became the 10th state to legalise recreational marijuana, bringing the total count to 10 for states in the United States that have legalised recreational marijuana while medical marijuana is currently legal in 33 states.



Source: Business Insider

And this wave is only set to continue. According to a recent survey published by the Pew Research Centre (a nonpartisan American fact tank based in Washington, D.C. It provides information on social issues, public opinion and demographic trends shaping the United States and the world) in October this year, 62% say the use of marijuana should be legalised, reflecting a steady increase over the past decade.

US public opinion on legalising marijuana, 1969 - 2018



Source: Pew Research Centre, SAC Advisors

Despite the rapid developments in the US, the most advanced and developed market for cannabis now, is Canada. Canada announced in October that the drug is legalised for all adults, making them the first G7 country to do so.

At this moment, we see Canada as the best place for investors seeking access to cannabis stocks than the US. This is because their federally coherent regulations will give investors comfort in seeking exposure. Businesses will also have better access to banking, and the public markets. Comparatively, despite the legalisation wave in the US, cannabis remains illegal on the federal level, this means that many cannabis businesses, which are legal to operate in the states that have legalised marijuana use cannot get access to the banking system or list on US stock exchanges.

Despite the restrictions listed above, these have not deterred a string of marijuana linked exchange-traded funds (“**ETFs**”) from listing on the stock exchange. In 2018 alone, there are at least 3 marijuana ETFs created, they include but are not limited to, Evolve Marijuana (Ticker: SEED), Horizons Emerging Marijuana Growers Index (Ticker: HMJR), and Purpose Marijuana Opportuniteis Fund (Ticker: MJJ) that give investors access to marijuana counters.

Traditional businesses are also getting in on the act. In August this year, Constellation Brands (a Fortune 500 company, and an international producer and marketer of beer, wine and spirits and is the largest beer import company as measured by sales) announced that it had further invested US$4 billion in Canopy Growth, a publicly traded Canadian cannabis producer. The deal comes just 10 months after Constellation first took a 10% stake in Canopy to create nonalcoholic cannabis-infused drinks and other products. The move increased their stake in Canopy to 38%, with a right to raise that later to 50%.

Coca–Cola, is also getting in on the act. In September this year, rumours emerged that they are in talks with Canada producer Aurora Cannabis about developing marijuana-infused beverages. These would not aim to intoxicate consumers but to relieve pain. The firm declined further comment, but said it was watching the cannabis drinks market closely.

Source: Dailymail.co.uk

The rumour however, has sent Coca-Cola's shares higher. As at the time of this writing, their shares have hit an all-time high.

Altria Group, Inc. (an American corporation and one of the world's largest producers and marketers of tobacco and cigarettes, which also owns Marlboro in their portfolio) announced early this month that they have invested US$1.8 billion in Canadian cannabis company Cronos Group. The move will give Altria a 45% stake in the company, with an option for Altria to increase its stake to 55% over the next five years.

The moves above reflects how traditional companies are willing to explore new avenues for growth as they face stagnating sales in their legacy products.

Going forward, we see the marijuana legalisation wave continue on for recreational and medical pot, and continued investments into this growing field in 2019.

2018 Singapore Review

Property cooling measures

After witnessing private home prices rose to its highest point in four years, the Singapore Government announced in July that it was increasing the Additional Buyer's Stamp Duty ("**ABSD**") rates and tightening the loan-to-value ("**LTV**") limits on residential property purchases. In an effort to cool the property market, a 5% and 10% increase in ABSD rates was imposed on individuals and entities purchasing residential property respectively. An additional non-remittable 5% ABSD tax was further levied on housing developers to reduce the bullishness of the collective sale market. Meanwhile, LTV limits was tightened by 5% for all housing loans granted by financial institutions. It was expected that these measures would increase prudence on the demand side and curb exuberance in land prices on the supply side, which would ease the rising pressure on property prices. Following the implementation of the property cooling measures, private residential grew at a much slower pace according to the Urban Redevelopment Authority's ("**URA**") private residential property index, which rose 0.5% in Q3 as compared to the 3.4% increase in Q2.

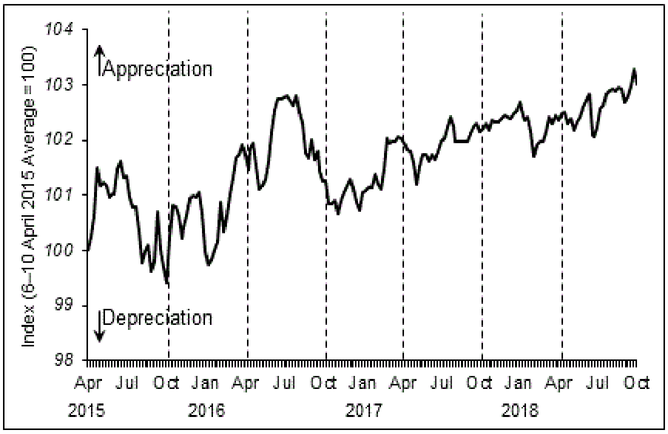
Profile of Buyer	ABSD Rates from 12 Jan 2013 to 5 Jul 2018	ABSD Rates on / after 6 Jul 2018
Singapore Citizens (SC) buying first residential property	Not applicable	Not applicable
SC buying second residential property	7%	12%
SC buying third and subsequent residential property	10%	15%
Singapore Permanent Residents (SPR) buying first residential property	5%	5%
SPR buying second and subsequent residential property	10%	15%
Foreigners (FR) buying any residential property	15%	20%
Entities buying any residential property	15%	25% plus Additional 5% for Housing Developers (non-remittable)

Source: IRAS, SAC Advisors

More measures to moderate the private property market were introduced in October. URA announced new guidelines to cut the maximum number of units allowed in new private flat and condo developments outside central area from early 2019. Under the new guidelines, the maximum number of housing unites allowed will be arrived at by dividing the proposed building gross floor area ("**GFA**") by 85 square meter instead of the current 70 square meter. Nine areas would face even more stringent requirements, in which the GFA will be divided by 100 square meter. The latest guidelines would mean that developers have to build bigger units to maximize the GFA of the land. They might also have to sell at a lower price per square meter in order to keep the absolute price of the units affordable.

Adjustment of S$NEER policy band

On the back of steady economic growth and upward pressures on core inflation, the Monetary Authority of Singapore ("**MAS**") has tightened its exchange rate-based monetary policy for the first time in six years to allow the Singapore dollar to rise. The MAS manages monetary policy through exchange rate settings by allowing the Singapore dollar to rise or fall against a trade-weighted basket of currencies of major trading partners within an undisclosed Singapore Dollar Nominal Effective Exchange Rate ("**S$NEER**") band. According to the MAS, apart from a brief period of decline in early 2018, the S$NEER has appreciated in the upper half of the policy band since October 2017. This development reflected, in part, broad-based US dollar weakness and depreciation in a number of regional currencies against the Singapore dollar.



----- indicates release of Monetary Policy Statement

Source: MAS

With an aim to ensure medium-term price stability, the MAS has decided to slightly increase the slope of the S$NEER band to allow for modest and gradual appreciation while keeping the width of the policy band and the level at which it is centred unchanged. This is a move away from the neutral stance that the MAS has maintained since April 2016. A tighter monetary policy, which corresponds to a stronger currency, will help to counter inflation by making imports cheaper in Singapore dollar, while exports will become more expensive. The MAS said that the measured adjustment had taken into account the uncertainty in macroeconomic outcomes presented by ongoing trade tensions. It also added that it would continue to closely monitor economic developments.

Review of Singapore's economic performance

In the latest data released by the Ministry of Trade and Industry ("**MTI**"), the Singapore economy grew by 2.2% year-on-year ("**y-o-y**") in the third quarter, slower than the 4.1% growth in the previous quarter and fell below economist expectations of 2.4%.

The Singapore GDP growth in the 3rd quarter was largely supported by the finance & insurance sector and the manufacturing sector.

The finance & insurance sector expanded by 5.6% y-o-y supported by growth in the insurance segment and spurred on by the push towards more efficient payment systems and cashless transactions in the economy. At 2010 market price, it contributed S$14.6 billion or 13.4% of 3rd quarter's GDP. The growth slowed as compared to the 6.8% growth in the previous quarter. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew at 6.7%, reversing the 2.1% contraction in the previous quarter.

The manufacturing sector, a key growth driver since 2017, grew by only 3.5%, moderating from the 10.7 % growth in the second quarter. The slower growth was caused by the output declines in the printing and miscellaneous industries segments, which led to a contraction for the general manufacturing cluster. At 2010 market price, it contributed S$27.5 billion or 25.4% of 3rd quarter's GDP. On a quarter-on-quarter seasonally-adjusted annualised basis, the sector grew at 3.0%, extending the 3.3% growth in the preceding quarter.

SECTORAL GROWTH RATES*	3Q17	4Q17	2017		1Q18	2Q18	3Q18
**at 2010 market price*	Year-on-Year % Change						
Goods Producing Industries	**12.2**	**2.7**	**5.7**		**7.1**	**7.5**	**2.3**
Manufacturing	19.1	4.8	10.1		10.8	10.7	3.5
Construction	9.3	-5.0	-8.4		-5.1	-4.2	-2.3
Services Producing Industries	**3.5**	**3.5**	**2.8**		**4.0**	**2.8**	**2.4**
Wholesale & Retail Trade	3.3	3.0	2.3		2.6	1.5	0.5
Transportation & Storage	5.2	5.3	4.8		2.7	1.2	2.1
Accommodation & Food Services	1.3	2.9	1.2		2.0	3.9	4.0
Information & Communications	5.1	6.0	3.3		5.5	5.8	4.7
Finance & Insurance	7.1	6.3	4.8		9.4	6.8	5.6
Business Services	0.5	0.4	0.6		2.6	2.3	2.4
Other Services Industries	2.0	2.7	2.6		2.2	0.5	1.2
Total	**5.5**	**3.6**	**3.6**		**4.6**	**4.1**	**2.2**

Source: MTI, SAC Advisors

SECTORAL GROWTH RATES*	3Q17	4Q17	2017		1Q18	2Q18	3Q18
**at 2010 market price*	Annualised Quarter-on-Quarter Growth % (Seasonally-Adjusted)						
Goods Producing Industries	**26.0**	**11.8**	**5.7**		**20.1**	**0.2**	**2.9**
Manufacturing	34.9	14.8	10.1		26.5	3.3	3.0
Construction	-2.4	-0.2	-8.4		1.4	-14.4	5.1
Services Producing Industries	**6.5**	**6.3**	**2.8**		**-1.4**	**0.3**	**4.6**
Wholesale & Retail Trade	9.0	6.5	2.3		-12.5	5.0	3.7
Transportation & Storage	5.2	7.2	4.8		-4.2	-2.8	9.0
Accommodation & Food Services	6.2	2.2	1.2		-4.7	12.9	6.1
Information & Communications	11.7	4.8	3.3		2.2	5.0	6.6
Finance & Insurance	11.7	12.6	4.8		5.5	-2.1	6.7
Business Services	0.0	1.0	0.6		11.6	-2.7	0.4
Other Services Industries	2.5	5.2	2.6		-2.9	-2.4	4.9
Total	**11.2**	**2.1**	**3.6**		**2.4**	**1.0**	**3.0**

Source: MTI, SAC Advisors

Construction was the worst performing sector in the 3rd quarter. The construction sector continued to contract, declining by 2.3%. Construction output in the quarter was weighed down by weakness in public sector construction activities.

According to MTI, Singapore's GDP growth is expected to moderate but remain firm for the last quarter of the year. Outward-oriented sectors such as the manufacturing and finance & insurance sectors are expected to continue to expand, albeit at a more moderate pace. Despite the slower growth, the full-year GDP growth forecast is narrowed upwards to 3.0% to 3.5% contributed by a stronger than expected economic performance in the 1st half.

Overall, manufacturing is set to remain the key driver for Singapore's economic growth in 2018, supported by a strong showing in the finance and insurance sector and a slowing wholesale and retail trade sector.

Key Market Statistics

(in millions)	2018 1Q	2018 2Q	2018 3Q	Total
GDP At 2010 Market Prices	**106,538**	**108,679**	**109,559**	**324,775**
Goods Producing Industries	**26,420**	**27,353**	**27,583**	**81,355**
Manufacturing	20,652	21,610	21,775	64,037
Construction	4,442	4,338	4,410	13,190
Utilities	1,296	1,374	1,368	4,039
Other Goods Industries	30	30	29	89
Services Producing Industries	**71,142**	**72,266**	**73,165**	**216,574**
Wholesale & Retail Trade	18,386	19,585	20,006	57,976
Transportation & Storage	8,108	8,192	8,341	24,641
Accommodation & Food Services	1,897	1,910	1,983	5,790
Information & Communications	4,065	4,294	4,239	12,598
Finance & Insurance	14,526	14,448	14,685	43,659
Business Services	13,959	13,796	13,736	41,492
Other Services Industries	10,202	10,041	10,176	30,418
Ownership Of Dwellings	**3,780**	**3,818**	**3,831**	**11,429**
Gross Value Added At Basic Prices	**101,342**	**103,437**	**104,579**	**309,357**
Add: Taxes On Products	**5,196**	**5,242**	**4,980**	**15,418**

Source: MTI, SAC Advisors

Key Market Statistics

	2017		2017 Q4	2018 Q1	2018 Q2	2018 Q3
Financial Indicators						
S$ Exchange Rate Against: (end-period)						
US Dollar	1.3366		1.3366	1.3117	1.3650	1.3671
100 Japanese Yen	1.1851		1.1851	1.2308	1.2332	1.2044
Euro	1.5962		1.5962	1.6169	1.5885	1.5923
Interest Rates (end-period, % p.a.)						
3-month Fixed Deposit Rate	0.14		0.14	0.15	0.15	0.16
3-month S$ SIBOR	1.50		1.50	1.45	1.52	1.64
Prime Lending Rate	5.28		5.28	5.33	5.33	5.33
Money Supply (end-period)						
Broad Money, M2 (YOY % change)	3.2		3.2	2.7	2.6	3.4
Government Budget						
Operating Revenue (S$ mil)	70,225		15,283	22,187	20,098	19,544
Total Expenditure (S$ mil)	71,634		17,978	24,907	13,897	17,646
Operating Expenditure	54,884		14,157	18,437	10,315	12,977
Development Expenditure	16,751		3,821	6,470	3,581	4,670
Primary Surplus/Deficit (S$ mil)	-1,409		-2,695	-2,720	6,202	1,897
% of GDP	-0.3		-2.3	-2.4	5.4	1.6
Balance of Payments						
Current Account Balance (% of GDP)	18.8		15.1	18.7	19.9	20.1
Goods Balance	26.2		23.5	25.8	27.1	27.6
Services Balance	-1.9		-2.0	-1.4	-1.2	-1.3
Primary Income Balance	-3.6		-4.6	-3.9	-3.9	-4.3
Secondary Income Balance	-1.9		-1.8	-1.7	-2.0	-1.9
Capital & Fin Account Balance (% of GDP)	10.4		9.2	13.7	12.7	14.2
Direct Investment	-12.0		-11.0	-9.0	-7.2	-18.0
Portfolio Investment	10.6		13.7	6.5	8.6	6.9
Financial Derivatives	-4.2		1.1	-6.8	-0.1	0.0
Other Investment	16.0		5.3	23.0	11.4	25.3
Overall Balance (% of GDP)	8.5		4.7	6.0	6.8	5.4
Official Foreign Reserves (US$ mil)	279,900		279,900	287,149	288,044	291,326
Months of Imports	10.3		10.3	10.3	9.9	9.7

Source: MTI, SAC Advisors

Local Business Trends

CAR WARS

This section highlights two diverse topics that trended in 2018. The first trend is a discussion of the Grab-Uber merger which was a corporate affair that hogged the headlines as it affected the daily commute of many members of the public. The second trend notes the rise in popularity for exchange collaborations for dual listings, creating synergies between global markets in a bid to map out individual markets' expansion plans.

Source: The Straits Times

The Market Share Debate

This year, the Grab-Uber merger brought forth conversations about what constitutes as violations of competition laws in Singapore. The debate was sparked after a majority of the private-hire car market was hit by Grab's corporate action. The hefty fine of S$13 million was also an attention-grabber and a potential deterrence for companies seeking to execute similar strategies.

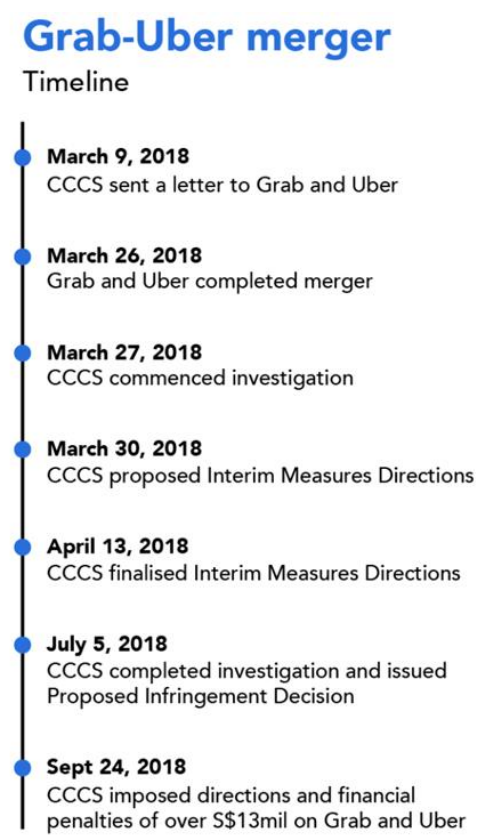
The spark of this issue was ignited when the public protested against the fare hikes and decreased discounts from Grab after its merger with Uber. This corporate transaction lent a spotlight on the transportation business and laws that governs the elimination of competition in Singapore.

Uber's share of the fine is S$6.58 million and Grab's is S$6.42 million. The Competition and Consumer Commission of Singapore ("**CCCS**") said it would suspend all restrictions on Grab if a new player could capture at least 30% of the Singapore ride-hailing market. The 30% threshold was based on Uber's market share before it was sold to Grab in March this year.

The commission finally completed its investigation on July 5, and issued a Proposed Infringement Decision against the parties and invited public feedback on the possible remedies to address the harm to competition resulting from the transaction. The CCCS stated that this decision was finalized to open up the market and create a level playing field. This is to allow companies to continue innovating in this market, through means other than anti-competitive mergers.

Go-Jek's recent entry into the local market would be the next hurdle for Grab as it faces the challenge of maximising its first mover advantage while innovating its way to retain its position as a market leader.

Timeline of Grab-Uber merger investigation



Source: The Business Times

Local Business Trends

We also see the rise in popularity for exchange collaborations for dual listings, creating synergies between global markets in a bid to map out individual markets' expansion plans. Tracking the rise in global markets' synergies, the Singapore Exchange ("**SGX**") expanded its market to collaborate with the Tel-Aviv Exchange.

Source: CNBC

Dual listing is not an unfamiliar idea to the equity market. Back in 1994, Creative Technology dual listed in both the SGX and the Nasdaq and in 2018 SIIC Environment Holdings dual listed in both the SGX and the Stock Exchange of Hong Kong Limtied ("**HKSE**"). As more companies seek access to additional liquidity and increased capital from alternative markets, dual listing becomes one of the main tools to achieve these objectives.

While dual listing has its many advantages, there are also instances of delisting from the dual-listed companies from the secondary bourse that they are listed on. Some common reasons cited for delisting have included low trading liquidity and lack of investor interest on the bourse.

As the Singapore Exchange expanded its market to Israel, it also established a partnership with the Tel-Aviv Exchange in an attempt to better retain the foreign companies that list here. The two exchanges aim to engage firms seeking to penetrate Asian markets with a primary focus on technology and healthcare companies. This initiative would include assisting companies during the pre-listing stage, facilitating the listing itself and providing issuers with ongoing support.

The bourses are also exploring other areas of collaboration, including the potential development of a private market ecosystem in Israel and enhancing the post-trade connectivity and services between the two markets.

While the effectiveness of dual listing boils down to many reasons, such as shares liquidity and investors' familiarity with the foreign company, exchange collaborations aim to boost the success of a company seeking to dual list.

> **"**TASE has access to one of the world's largest populations of technology start-ups and a rapidly expanding research and development hub in the technology and biotech space..**"**
>
> **SGX Chief Executive Loh Boon Chye**

Singapore Market Outlook 2019

Bigger strides towards SMART Nation

The SMART Nation concept is about harnessing the full power and potential of digital technologies to create new jobs and business opportunities, to increase convenience and enable a productive economy through more efficient Government and business processes. Increasing governmental support for technology is likely to continue beyond 2018 and 2019. An indicator for this is the dedicated government support of US$14 billion that is going towards the smart nation programme over the next 5 years. The Singapore government is also committed to invest US$2.4 billion for commercialisation of technology innovation and US$2.1 billion for innovation and technology research.

According to the Smart Nation and Digital Government Office, a more urgent approach will be taken to counter the risks of Singapore falling behind in emerging areas such as e-payments and digital identity systems. With this renewed sense of urgency, the Government would enforce more integrated approach to lay the foundation infrastructure, and drive persuasive adoption of digital and smart technologies throughout the economy and society.

Singapore uses 3 key pillars to support the country's Smart Nation goals, namely digital economy, digital government and digital society.

Digital economy aims to keep Singapore vibrant and competitive by helping businesses adjust to rapid digitalisation that is disrupting business operations. By digitalising the economy, this will help to increase business efficacy and create new jobs and opportunities. This will allow Singapore to remain as a vibrant economy that will continue to attract foreign investments.

Digital government aims to use data, connectivity and computing to strengthen integration between policy, operations and technology. This will ultimately transform the way citizens and businesses are served.

Digital society is about digital inclusion. By ensuring all Singaporeans have access to technology and are equipped with the skills and know-how to use technology, this ensures everyone can experience the benefits of technology, improve their lives and have an equal chance to succeed.

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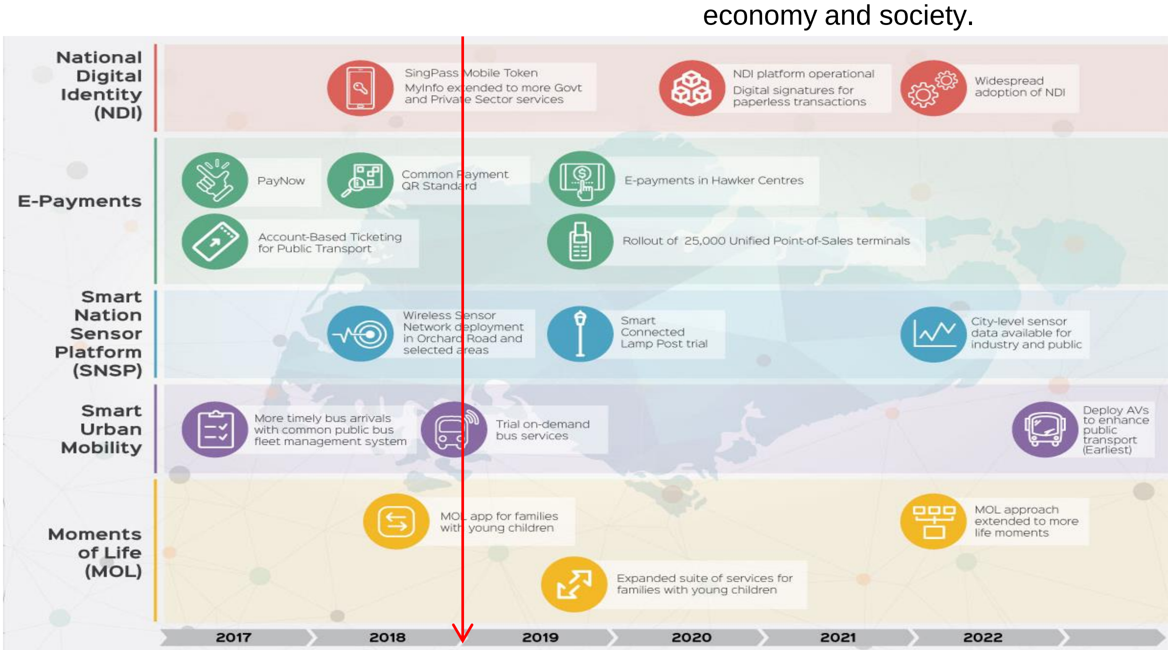


Source: Business Times

Present Point

These are some of the strategic national projects to take place in the immediate months:

- National Digital Identity framework, for citizens and businesses to transact digitally in a convenient and secure manner;
- e-Payments drive, to allow everyone to make simple, swift, seamless and safe payments;
- Smart Nation Sensor Platform, to accelerate the deployment of sensors and other IOT (Internet of Things) devices that will make the city more liveable and secure;
- Smart Urban Mobility, to leverage data and digital technologies, including artificial intelligence and autonomous vehicles, to further enhance the public transport commute;
- Moments of Life, which bundles relevant government services, across different agencies, to the citizen at key moments of his life. This reduces the need for citizens to transact with multiple government agencies, for a more seamless and convenient experience.

In view of the Smart Nation push that Singapore is putting forward, the modern services cluster, which contributed to around 30% of the Singapore economy in 2018, is set to continue its robust growth in 2019. The modern services cluster includes firms that provide professional, financial and technology services, such as cyber security and banking services.

One of the key area of growth is through the e-payments drive. As established payment players further expand and more new entrants enter into the burgeoning e-payments space, this will provide a fillip to growth in Singapore's financial services and infocomm technology sector.

While the modern services cluster will not be spared in a global economic slowdown, this cluster is less susceptible to trade shocks brought about by the rising trade tensions as compared with other types of services, such as wholesale trade, transport and storage industries.

In the latest macroeconomic review, the MAS expects strong growth momentum of digital-related activities to be sustained. Underpinned by digitalisation and innovation, the modern services cluster is set to become a key driver in the Singapore economy in 2019.

Singapore Market Outlook 2019

The outlook for 2019 is being affected by the continued effects of events happened in 2018. While lingering issues in 2018 like the collapse of the Argentine peso, the crisis in Turkey, the weakness of the Indonesian rupiah and Italy's debt-driven deficit are likely to persist in 2019, we see the US-China trade war as the single greatest uncertainty to the local and global markets moving forward. Specifically, the first half of 2019 would likely be plagued with similar trade uncertainties as the US and China continue to try for a resolution over the trade war. UK Prime Minister Theresa May’s plans for a further concession from the European Union will also cause further uncertainties in the global markets as she look set to test the Union’s resolve against negotiating a fresh deal.

Despite the market uncertainties however, and amidst the widespread selling in the second half of 2018, value has emerged in selected beaten down sectors, particularly in the telecommunications, banking and consumer goods sectors.

We remain cautiously optimistic about Singapore market in 2019 despite the volatile market conditions on the back of attractive valuations and positive industry outlook.

Our top picks for 2019 are Interra Resources (BUY, TP:S$0.089, Upside:+123%), Hong Lai Huat (BUY, TP: S$0.51, Upside:+155%), Advancer Global (BUY, TP: S$0.36, Upside: +41.2%), and Sanli Environmental (BUY, TP: S$0.36, Upside: +44%).

Conviction List

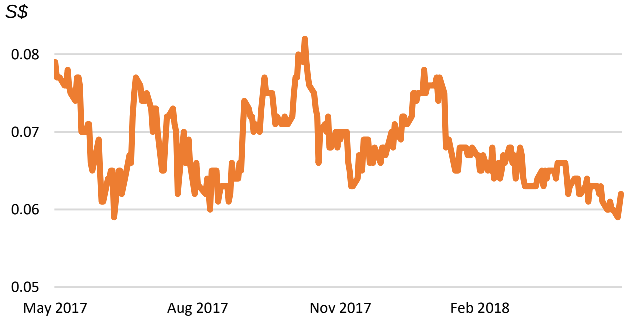
Interra Resources Limited

Date: 16 November 2018

BUY
(Maintained)

Target price: S$0.089
(+123%)

ITRR SP
Price: S$0.040 **(as at 15 November 2018)**



Share price	1M	3M	6M	1Y
Interra Resources	(20.0)%	(20.0)%	(33.3)%	(33.3)%
Straits Times Index	(0.0)%	(8.9)%	(5.0)%	(26.2%)

Market capitalisation	S$23.4 million
Current price	S$0.040
Shares outstanding	585,973,604
Free Float	17.6%
Major shareholders	North Petroleum International (1) 13.57% PT Saratoga Investama Sedaya (2) 13.54%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

(1) North Petroleum International Company Ltd is headquartered in Hong Kong. The Company's line of business includes the wholesale distribution of petroleum and petroleum products.

(2) Edwin Soeryadjaya and Sandiago Salahuddin Uno are deemed to have interests in all the shares held by PT Saratoga Investama Sedaya.

Analyst
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Second consecutive quarter of profitability

Interra Resources Limited, and together with its subsidiaries, ("**Interra Resources**", "**Company**", or the "**Group**") reported third quarter results which saw revenue for the quarter come in at US$4.3 million, 10% higher than the previous quarter and 73% higher on a year-on-year basis. Overall, revenue benefited from the higher weighted average transacted oil price of US$72.43 per barrel as compared to the previous quarter of US$70.39, and the higher sales of shareable oil of 75,103 barrels as compared to the previous quarter of 64,095 barrels. This boosted the Group's gross margins by 14.3% from 39.0% in the corresponding period to 53.3% this quarter. Their 9M18 profit of US$1.28 million also beat our FY18 profit of US$477,000 by a wide margin (>168%).

Group's shareable production for the quarter increased 35% from previous quarter to 75,103 barrels. The Group benefited from the increased drilling activity post contract extension, which saw higher shareable production from Myanmar in the third quarter. A total of 2 new wells were drilled during the quarter, bringing the total wells drilled for the year to 8, the incremental production has now reached the pre-contract extension level.

We maintain BUY with a target price of S$0.089 based on a conservative target 6.4x EV/1P Reserves. This is a 50% discount to the industry average. We believe Interra Resources is at a key inflexion point. Firmer oil prices and contract extensions have led to a turnaround in profitability which we have already seen in their last 2 quarters, and this has already exceeded our FY18 forecast. The stock trades at 0.7x of its book value, albeit sitting on net cash of US$5.3m as at September 2018. We maintain BUY with a target price of S$0.089, representing a 123% upside potential.

Key risks: (i) Variability in crude oil price and (ii) variability in final shareable oil production

Key Financials

Year ended December (US$'000)	FY2014	FY2015	FY2016	FY2017	FY2018E
Revenue	55,796	23,452	15,173	11,245	15,900
% Growth	11.2%	(58.0%)	(35.3%)	(25.9%)	41.4%
Gross profit	11,155	(10,621)	5,563	6,203	7,712
Gross profit margin	20.0%	(45.3%)	36.7%	55.2%	48.5%
Profit/(loss) before tax	(7,998)	(52,229)	(7,787)	1,212	635
Profit/(loss) before tax margin	NA	NA	NA	10.8%	4.0%
Profit/(loss) attributable to owners (3)	(10,794)	(47,417)	(8,041)	1,320	477
EPS/(LPS) (US cents)	(2.4)	(9.8)	(1.6)	0.3	NA
P/E (x)	NA	NA	NA	14.9	NA
P/B (x)	0.3	0.6	0.7	0.7	NA
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash

(3) Profit/(loss) attributable to equity holders of the Company from continuing operations

Group's profit margins soars

Interra Resources, reported third quarter results which saw revenue for the quarter come in at US$4.3 million, 10% higher than the previous quarter and 73% higher on a year-on-year basis. Overall, revenue benefited from the higher weighted average transacted oil price of US$72.43 per barrel as compared to the previous quarter of US$70.39, and the higher sales of shareable oil of 75,103 barrels as compared to the previous quarter of 64,095 barrels. This boosted the Group's gross margins by 14.3% from 39.0% in the corresponding period to 53.3% this quarter.

The strong operating performance saw the Group report a profit of US$1.3 million, reversing the loss of US$0.1 million reported from the corresponding period last year, and marked their second consecutive quarter of turning a profit for FY18. Their 9M18 profit of US$1.28 million also beat our FY18 profit of US$477,000 by a wide margin (>168%).

Group's shareable production for the quarter increased 35% from previous quarter to 75,103 barrels. The Group benefited from the increased drilling activity post contract extension, which saw higher shareable production from Myanmar in the third quarter. A total of 2 new wells were drilled during the quarter, bringing the total wells drilled for the year to 8, the incremental production has now reached the pre-contract extension level. The increase this quarter however, was offset by the loss of shareable production from LS TAC in Q318 (representing 7,370 barrels in Q317) due to the deconsolidation of PT Intinusa Abadi Manufacturing by PT Mitra Investindo TBK.

(US$'000)	3Q18	2Q18	3Q17
Gross profit	**2,289**	2,061	971
Gross margin	**53.3%**	52.7%	39.0%
Profit for period	**1,302**	544	(184)
Profit margin	**30.3%**	13.9%	N/A

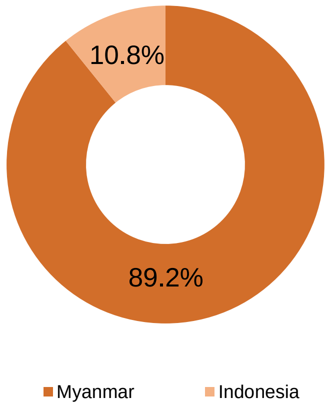
Source: Company data, SAC Advisors

In our view, the quarter-on-quarter rise in shareable production illustrates the Group's Water Flood Project – which commenced in 2Q18 – is progressing well. The Group also disclosed that the technical team is evaluating various strategies and options to optimise the output of the Water Flood Project, which has so far exceeded our expectations.

Business Overview:

Interra Resources engages in the petroleum exploration production activities in Indonesia and Myanmar. They have a 60% interests in two onshore oil fields in Chauk and Yenangyaung, which contribute the bulk of revenue. Interra Resources was incorporated in 1973.

Net 1P Reserves (FY2017)



Source: Company data, SAC Advisors

Increased shareable production and profitability

We maintain BUY with a target price of S$0.089 based on a conservative target 6.4x EV/1P Reserves. This is a 50% discount to the industry average. We believe Interra Resources is at a key inflexion point. Firmer oil prices and contract extensions have led to a turnaround in profitability which we have already seen in their last 2 quarters, and this has already exceeded our FY18 forecast. The stock trades at 0.7x of its book value, albeit sitting on net cash of US$5.3m as at September 2018. We maintain BUY with a target price of S$0.089, representing a 123% upside potential.

Company Background

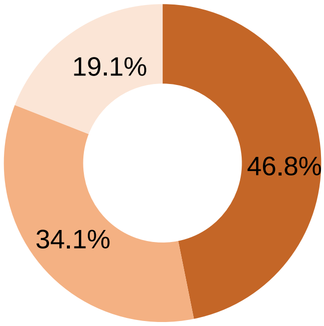
Interra Resources is engaged in the business of petroleum E&P. Its E&P activities include petroleum production, field development and exploration. Interra Resources is positioning themselves to become a leading regional independent producer of petroleum. Its current portfolio of production, development and exploration assets comprises five petroleum contract areas in Indonesia and Myanmar.

Its operations in Myanmar, namely Chauk and Yenangyaung contributed 81.0% of total revenue as compared to 19.0% from Indonesia, which came solely from the Linda-Sele fields.

In line with the curtailment of the drilling programme for the past two years owing to the crude oil slump and contract expiry, the Group's total shareable oil production for FY2017 fell 48.2% to 261,635 barrels from 504,979 barrels for FY2016.

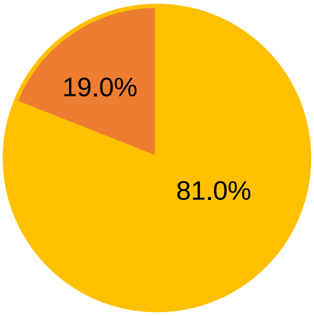
It was previously listed on the SGX Catalist Board before getting transferred to the SGX Mainboard on the 10 January 2013.

Revenue Breakdown (FY2017) – By oilfield



Source: Company data, SAC Advisors

Revenue breakdown (FY2017) – By country



Source: Company data, SAC Advisors

**The Group's revenue from Indonesia declined in FY17 vs. FY16 because the Technical Assistance Contract for the Tanjung Miring Timur field expired in December 2016.*

Petroleum Assets

Country/asset name	Effective interest (%)	Development status	Type of contract	Contract Expiry date	Contract area (km2)	Type of deposit
Myanmar						
Chauk Field	60.00	Producing	Improved Petroleum Recovery Contract ("**IPRC**")	3 Apr 2028	955	Hydrocarbon
Yenangyaung Field	60.00	Producing	IPRC	3 Apr 2028	845	Hydrocarbon
Indonesia						
Linda-Sele Fields	53.99	Producing	Technical Assistance Contract ("**TAC**")	15 Nov 2018	19	Hydrocarbon
Benakat Barat Field	30.65 (indirect)	Producing	Operations Cooperation Agreement ("**KSO**")	15 Mar 2024	73	Hydrocarbon
Kuala Pambuang Block	67.50	Exploration	Production Sharing Contract ("**PSC**")	18 Dec 2021	1,631	Hydrocarbon

Source: Company data, SAC Advisors

Income Statement (US$'000)

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
Revenue (1)	**23,452**	**15,173**	**11,245**	**15,900**	N/A
Less: Cost of sales	(34,073)	(9,610)	(5,042)	(8,189)	N/A
Gross Profit	(10,621)	5,563	6,203	7,712	N/A
Other income	324	63	594	395	N/A
Administrative expenses	(41,247)	(6,574)	(5,269)	(7,155)	N/A
Finance expenses	(59)	(82)	(130)	(130)	N/A
Share of losses of associated companies	(626)	(6,755)	(186)	(186)	N/A
Results from operating activities	(52,229)	(7,787)	1,212	635	N/A
Tax expense	(555)	(1,031)	(813)	(159)	N/A
Profit/(Loss) from discontinued operations for FY	(655)	(39)	(46)	0	N/A
Total profit/(loss)	**(53,439)**	**(8,857)**	**353**	477	N/A
Profit/(Loss) attributable to owners of company	**(47,719)**	**(8,062)**	**1,298**	**N/A**	**N/A**
Earnings/(Loss) per share:					
-Basic (US cents)	**(9.85)**	**(1.59)**	**0.26**	N/A	N/A
-Diluted (US cents)	**(9.85)**	**(1.59)**	**0.26**	N/A	N/A

(1) From continuing operations

Balance Sheet (US$'000)

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
As at 31 December					
Property, plant and equipment	133	92	95	N/A	N/A
Producing oil and gas properties	359	206	3,152	N/A	N/A
Exploration and evaluation costs	10,488	10,584	10,616	N/A	N/A
Other non-current assets	12,127	3,792	11,451	N/A	N/A
Total non-current assets	**23,107**	**14,674**	**25,314**	**N/A**	**N/A**
Inventories	6,804	4,880	5,202	N/A	N/A
Trade and other receivables	12,450	13,486	8,295	N/A	N/A
Cash and bank balances	17,828	14,087	11,291	N/A	N/A
Other current assets	777	377	353	N/A	N/A
Assets of disposal group classified as held-for-sale	4,452	4,599	4,496	N/A	N/A
Total current assets	**42,311**	**37,322**	**29,637**	**N/A**	**N/A**
Total assets	**65,418**	**52,103**	**54,951**	**N/A**	**N/A**
Share capital	69,258	69,258	69,258	N/A	N/A
Accumulated losses	(21,271)	(29,369)	(28,169)	N/A	N/A
Other reserves	(18,597)	(18,397)	(18,713)	N/A	N/A
Equity attributable to owners of the Company	**29,390**	**21,492**	**22,376**	**N/A**	**N/A**
Non-controlling interests	3,962	3,847	4,746	N/A	N/A
Total Equity	**33,352**	**25,339**	**27,122**	**N/A**	**N/A**
Provision for environmental and restoration costs	4,474	1,564	139	N/A	N/A
Other non-current liabilities	39	53	25	N/A	N/A
Non-current liabilities	**4,513**	**1,617**	**164**	**N/A**	**N/A**
Trade and other payables	16,096	9,499	13,234	N/A	N/A
Borrowings	3,728	3,739	3,736	N/A	N/A
Provision for environmental and restoration costs	-	3,300	1,581	N/A	N/A
Current income tax liabilities	6,657	7,327	7,604	N/A	N/A
Liabilities directly associated with disposal group classified as Held-for-sale	1,072	1,282	1,510	N/A	N/A
Current liabilities	**27,553**	**25,147**	**27,665**	**N/A**	**N/A**
Total liabilities	**32,066**	**26,764**	**27,829**	**N/A**	**N/A**
Total equity and liabilities	**65,418**	**52,103**	**54,951**	**N/A**	**N/A**

Cash Flow Statement (US$'000)

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
Profit/(Loss) before tax	**(53,439)**	**(8,857)**	**353**	**NA**	**NA**
Depreciation, amortisation and impairment (2)	52,374	431	270	NA	NA
Change in working capital	7,230	(799)	304	NA	NA
Others	2,427	7,928	1,709	NA	NA
Net Cash from/ (used in) operations	**8,592**	**(1,297)**	**2,636**	**NA**	**NA**
Capital Expenditures	(8,501)	(332)	(3,309)	NA	NA
Others	650	139	(1,921)	NA	NA
Net Cash from/(used in) investing	**(7,851)**	**(193)**	**(5,230)**	**NA**	**NA**
Net increase in equity	1	-	100	NA	NA
Net increase in debt	3,000	(4,476)	658	NA	NA
Others	(4,327)	(2,080)	1,165	NA	NA
Net Cash from/(used in) financing	**(1,326)**	**(6,556)**	**1,923**	**NA**	**NA**

(2) The decline in both crude oil prices and production levels gave rise to an overall impairment charge on the producing oil and gas properties in FY15.

Ratios

	Fiscal Year Ended				
	FY15	FY16	FY17	FY18E	FY19E
Profitability (%)					
Gross profit margin	(45.3%)	36.7%	55.2%	NA	NA
Profit/(loss) before tax margin	(222.7%)	(51.3%)	10.8%	NA	NA
Profit/(loss) after tax margin	(227.9%)	(58.4%)	3.1%	NA	NA
Liquidity (x)					
Current ratio	1.5	1.5	1.1	NA	NA
Quick ratio	1.3	1.3	0.9	NA	NA
Interest coverage ratio	(890.8)	(93.4)	10.3	NA	NA
Net Debt to Equity	(48.0%)	(37.8%)	(33.3%)	NA	NA
Valuation (x)					
P/S	1.5	2.4	3.2	NA	NA
P/E	NA	NA	14.9	NA	NA
P/B	0.6	0.7	0.7	NA	NA
Cash Conversion Cycle					
Net trade receivable days	52	87	107	NA	NA
Inventory days	65	132	282	NA	NA
Trade payable days	65	41	97	NA	NA
CCC days	48	193	276	NA	NA
Returns					
Return on equity	(162.4%)	(37.5%)	5.8%	NA	NA
Return on capital employed	(141.1%)	(32.9%)	1.3%	NA	NA
Dividend payout ratio	NA	NA	NA	NA	NA

n.m.: not meaningful

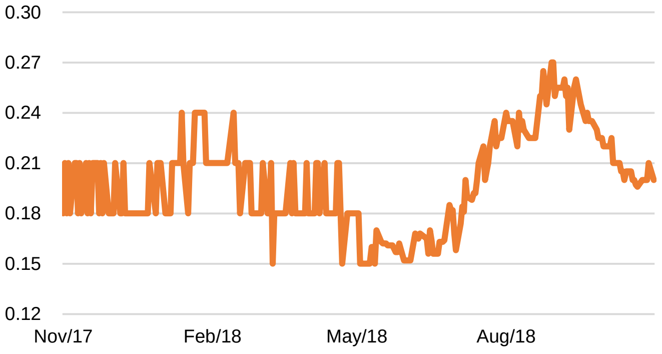
Hong Lai Huat Group Limited

Date: 7 November 2018

BUY
(Maintained)

Target Price: S$0.51 (+155%)

HLHG SP
Price: S$0.200 (as at 5 November 2018)



Share price	1M	3M	6M	1Y
Hong Lai Huat	-21.5%	0.0%	5.9%	0.0%
Catalist Index	-5.3%	-9.6%	-14.7%	-17.4%

Market capitalisation	S$44.4 million
Current Price	S$0.200
Shares outstanding	221.9million
Free Float	60.5%
Top shareholders	Dato' Dr. Ong Bee Huat 15.0% Dr. Wong Wen-Young Winston 6.2%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

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3Q18 results boosted by strong sales of D'Seaview

Strong property sales at D'Seaview drove 3Q18 results with revenue up 114% year-on-year ("y-y"). Hong Lai Huat Group Limited ("**Hong Lai Huat**", or the "**Group**") reported 3Q18 results that saw revenue rose 114% y-y for the period under review, up from S$4.7 million a year ago on the back of stronger property sales at the Group's signature D'Seaview project development in Sihanoukville, Cambodia. The property segment accounted for 91% of the Group's total revenue in 9M18, up from 87% in 1H18.

D'Seaview has achieved good take-up (>80% of the commercial and residential units sold) since the Group extended its launch to Singapore buyers in 2017. As an early mover in this type of development in the city, it is a price leader which translates into good margins. We understand that land prices in Sihanoukville have skyrocketed since 2015 when the land was acquired, as international developers snapped up landbank over the last 3 years. For more on our site visit at Sihanoukville, see our report here.

Profit attributable to owners of the company reversed from a loss last year to S$1.5 million profit in the latest quarter. The stronger revenue resulted in the Group reversing their S$859,000 loss last year. For 9M18, the Group saw profit attributable to owners of the Company up 73% on a y-y basis. The Group's cash position also continued to strengthen in the latest quarter, rising from S$6.0 million in the previous quarter to S$11.5 million for the current quarter, along with the reduction in debt, the Group remained in a net cash position.

On track to completion of commercial and residential segment. The Group continues to expect positive response in sales on the D'Seaview project from both local and foreign buyers. The Group is on track to meeting the completion of the commercial segment by September 2018 (the Group celebrated its roof topping-up ceremony for the development on 27 June 2018), and the completion of the residential segment which is targeted by 1st half of 2019.

We maintain BUY. We are forecasting Hong Lai Huat to post a strong recovery in 2018 and 2019 as it recognises higher sales from D'Seaview. The Group has also signed a MOU with The Royal Group to develop a freehold plot of land at Phnom Penh. The stock is trading at an attractive 0.9x FY19 P/E and 0.28x FY17 P/BV versus sector average of 0.9x. We value Hong Lai Huat at S$0.51 per share after applying a 40% discount to its RNAV. This translates to an implied FY18 P/BV of 0.8x. We have not factored in any contribution from potential property earnings in Singapore, and cooperation with a third party to expand its cassava business in Cambodia. Despite jumping over 23% since our initiation of coverage on 29 June 2018, we see the Company as deeply undervalued, we maintain BUY.

Key Financials

Year ended December (S$m)	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E	FY2020E
Revenue	5.7	10.3	12.6	52.7	105.1	29.9
% Growth	N/A	80.7%	21.8%	318.5%	99.3%	-71.6%
Gross Profit	4.5	7.8	6.4	31.1	59.3	19.6
Gross Profit margin (%)	77.8%	75.9%	50.5%	58.9%	56.4%	65.8%
Profit before tax	7.4	7.0	4.9	18.8	48.5	10.6
Profit after tax	5.5	6.3	2.1	15.0	38.8	8.5
% Growth	516.7%	14.85%	-67.48%	633.02%	158.09%	-78.13%
Profit after tax margin (%)	95.9%	60.9%	16.3%	28.5%	36.9%	28.4%
Basic EPS (S$ cents)	2.47	2.84	0.92	6.77	17.47	3.82
Diluted EPS (S$ cents)	2.40	2.76	0.90	6.57	16.97	3.71
P/E (x)	6.59	5.74	17.65	2.41	0.93	4.26
Net Debt/Equity (%)	5.8%	Net cash	2.5%	Net cash	Net cash	Net cash

N/A: Not applicable

Company background

Hong Lai Huat was founded by Dato Dr Johnny Ong Bee Huat in 1988 and started as a construction company, named Hong Lai Huat Construction. In 1997, the group was graded by Building and Construction Authority ("**BCA**") as G8 building contractor after demonstrating a good track record of construction of HDB housing projects, shopping malls, community centres and industrial projects. The G8 grading allows the group to tender for public projects of unlimited values.

In 2000, the Group was listed on the mainboard of SGX under the name of "Hong Lai Huat Group Limited". The Group launched its maiden project, D'Ecosia at Still Road in 2001 and took pride that the project was completely sold within a year after completion in 2003. Having tasted the success of D'Ecosia, the company went on to develop several projects in Singapore, namely D'Fresco, D'Almira, D'Lithium, D'Centennial, D'Kranji Farm Resort, D'Castilia from year 2003 to 2013.

In 2015, the Group expanded its property development arm to Cambodia after 2 years of careful study.

In Cambodia, it also owns one of the largest cassava plantations in Cambodia with a combined land size of approximately 10,000 hectares and a maximum annual production capacity of 225,500 ton of fresh cassava. The starch factory, which is located within the farm, has a maximum production capacity of 36,000 ton of native tapioca starch per annum.

The group has two core businesses:

Property development
With a vast experience in the property and real estate business in Singapore, it is currently developing its first freehold mixed development in Cambodia known as D'Seaview, a project with 737 residential units and 67 commercial units comprises office buildings, commercial retail shops and a hotel.

Agriculture
The Group cultivates fresh cassava for the production of native tapioca starch for local and the export market. HLH has a 70-year concessional rights to the agriculture land with total land area of approximately 10,000 hectares, located at Aoral District, Kampong Speu Province, Cambodia ("**Aoral farm**").

Group Structure

- **Hong Lai Huat Group Limited**
  - **Hong Lai Huat International Pte Ltd**
    - Public Housing Development Cambodia Limited
    - PH One Development (Cambodia) Limited
  - **HLH Development Pte Ltd**
    - Hong Lai Huat Development (Cambodia) Ltd
  - **HLH Agri International Pte Ltd**
    - HLH Global Trading Pte Ltd
    - HLH Agri R&D Pte Ltd
    - HLH Agriculture (Cambodia) Co., Ltd
    - HLHI (Cambodia) Company Limited

Source: Company data, SAC Advisors

Recommendation

Hong Lai Huat is trading at attractive FY17 P/BV of 0.28x and forward P/E of 0.9x, based on our earnings forecast for 2019. We value Hong Lai Huat at S$0.51 per share after applying a 40% discount to its RNAV to factor in the lack of project in the pipeline although D'Seaview is expected to underpin the group's earnings in the next 2-3 years. The target price of S$0.51 translates into a FY18 P/BV of 0.8x versus sector average of 0.9x. With a substantial potential share price upside of more than 155%, we maintain Hong Lai Huat with a BUY recommendation.

We believe the market is currently undervaluing the stock. We have not factored in any contribution from potential property launch in Singapore and a possible cooperation with a third party to expand its cassava business.

RNAV breakdown	
Property development surplus (S$ m)	59.97
NAV - as at end-Dec 2017 (S$ m)	127.67
RNAV (S$ m)	187.64
Shares outstanding (m)	221.93
RNAV per share (S$)	0.85
RNAV discount (%)	40.0%
Discounted RNAV per share (S$)	**0.51**
Current share price (S$)	0.200
Upside	155.0%
Implied P/BV (x) - FY18	0.79

Source: SAC Advisors

Income Statement (S$ m)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Revenue	**10.3**	**12.6**	**52.7**	**105.1**	**29.9**
Cost of goods sold	-2.5	-6.2	-21.7	-45.8	-10.2
Gross Profit	**7.8**	**6.4**	**31.1**	**59.3**	**19.6**
Other income	0.5	1.8	0.5	0.5	0.5
Administrative expenses	-4.5	-6.2	-6.0	-6.0	-4.5
Distribution and selling expenses	-1.5	-1.6	-1.7	-1.7	-1.5
Other operating expenses	-0.1	0.0	0.0	0.0	0.0
Depreciation and amortization	-1.7	-3.5	-4.8	-4.9	-4.9
Finance costs	-0.7	-0.5	-0.5	-0.5	-0.5
Interest income	0.0	0.0	0.3	1.8	1.9
JV/associate income	0.0	0.0	0.0	0.0	0.0
Exceptional item	7.0	8.6	0.0	0.0	0.0
Profit before tax	**7.0**	**4.9**	**18.8**	**48.5**	**10.6**
Income tax	-0.7	-2.9	-3.8	-9.7	-2.1
Minority Interest	0.0	0.0	0.0	0.0	0.0
Profit for the year/period	**6.3**	**2.1**	**15.0**	**38.8**	**8.5**

Balance Sheet (S$ m)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
PPE	35.6	94.9	91.1	87.2	83.3
Investment properties	89.4	37.9	37.9	37.9	37.9
Others	0.0	0.1	0.1	0.1	0.1
Total Non-Current Assets	**125.1**	**132.8**	**129.0**	**125.1**	**121.2**
Development properties	18.3	15.1	24.8	28.9	0.0
Inventories	0.7	0.5	0.5	0.5	0.5
Trade receivables	7.8	0.6	2.1	4.2	1.2
Cash and short term deposits	6.7	2.0	16.4	74.0	85.8
Others	1.2	11.6	14.6	15.1	15.6
Total current assets	**34.8**	**29.8**	**58.4**	**122.7**	**103.1**
Trade payables	1.5	7.3	10.8	22.9	5.1
Loans and borrowings	1.7	3.3	3.3	3.3	3.3
Others	5.8	2.9	9.1	18.8	4.5
Total Current Liabilities	**9.0**	**13.5**	**23.2**	**45.0**	**12.9**
Deferred tax liabilities	14.9	16.4	16.4	16.4	16.4
Loans and borrowings	4.5	1.9	1.9	1.9	1.9
Convertible bonds	0.0	2.0	2.0	2.0	2.0
Others	0.7	1.1	1.1	1.1	1.1
Total Non-current Liabilities	**20.1**	**21.5**	**21.5**	**21.5**	**21.5**
Shareholder's Equity					
Share capital	94.6	94.6	94.6	94.6	94.6
Reserves	48.0	42.8	42.8	42.8	42.8
Accumulated (losses) profits	-11.8	-9.8	5.3	44.0	52.5
Total equity attributable to shareholders of the company	130.8	127.7	142.7	181.5	190.0
Non-controlling interests	0.0	0.0	0.0	0.0	0.0
Total Equity	**130.8**	**127.7**	**142.7**	**181.5**	**190.0**

Cash Flow Statement (S$ m)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profit before tax	7.0	4.9	18.8	48.5	10.6
Depreciation & amortisation	1.7	3.5	4.8	4.9	4.9
Interest income	0.0	0.0	-0.3	-1.8	-1.9
Interest expense	0.7	0.5	0.5	0.5	0.5
Change in working capital	-7.9	-6.2	-4.5	15.0	-0.6
Others	-7.8	-10.8	-4.0	-8.4	-0.7
Net Cash (used in)/ from operations	**-6.3**	**-8.2**	**15.4**	**58.6**	**12.8**
Purchase of PPE	-0.2	-0.3	-1.0	-1.0	-1.0
Others	0.8	2.8	0.0	0.0	0.0
Net Cash (used in)/ from investing	**0.6**	**2.5**	**-1.0**	**-1.0**	**-1.0**
Net change in equity	12.9	0.0	0.0	0.0	0.0
Net change in debt	-3.8	-1.7	0.0	0.0	0.0
Others	12.8	0.0	0.0	0.0	0.0
Net Cash (used in)/ from financing	**9.0**	**-1.7**	**0.0**	**0.0**	**0.0**

Ratios

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profitability (%)					
Operating profit margin	5.9%	-25.6%	36.1%	44.9%	30.9%
Profit before tax margin	67.5%	38.9%	35.6%	46.1%	35.5%
Profit after tax margin	60.9%	16.3%	28.5%	36.9%	28.4%
Liquidity (x)					
Current ratio	3.88	2.20	2.51	2.73	7.97
Quick ratio	1.76	1.05	1.42	2.08	7.93
Interest coverage ratio	0.90	-6.87	36.39	90.26	17.64
Net Debt to Equity	Net cash	2.5%	Net cash	Net cash	Net cash
Valuation (x)					
P/E	5.74	17.65	2.41	0.93	4.26
Core P/E	-50.67	-5.57	2.41	0.93	4.26
P/B	0.28	0.28	0.25	0.20	0.19
Returns					
Return on equity	5.3%	1.6%	11.1%	23.9%	4.6%
Return on asset	0.4%	-2.0%	10.9%	21.7%	3.9%
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%	0.0%

Advancer Global Limited

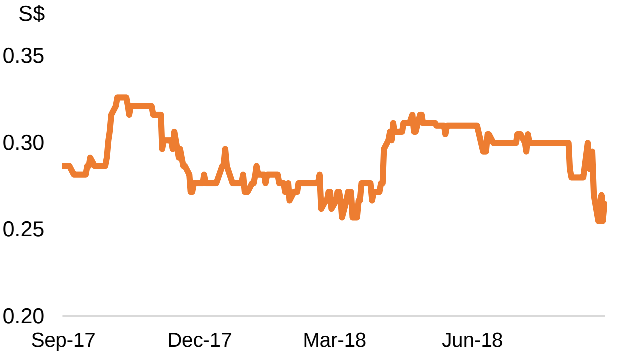
Date: 12 September 2018

BUY

Target Price: S$0.360 (+41.2%)

ADGL SP

Price: S$0.255 (as at 11 September 2018)



Share price	1M	3M	6M	1Y
Advancer Global	-7.1%	-18.8%	-3.7%	-10.3%
Catalist Index	-2.9%	-10.7%	-21.2%	-17.8%

Market capitalisation	S$63.9 million
Current Price	S$0.255
Shares outstanding	250.7 million
Free Float	11.2%
Major shareholder	Fullcast Holdings 25.8% Chin Mui Hiong 15.5% Chin Swee Siew 15.1%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

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New Strategic Investor Advances Group's push into Japan

Enters into joint venture with Fullcast Holdings. Advancer Global Limited ("**ADGL**", "**Company**" or "**Group**") announced that they have completed a share subscription agreement with Fullcast Holdings Co., ("**Fullcast**") where 65 million new shares (about 1/3 of the existing paid-up capital of the Company) of the Company will be allotted to Fullcast at the subscription price of S$0.34, representing a premium of approximately 14.32% to the volume weighted average price of for trades dones on the Catalist on the 21 June 2018, being the last full market day which the shares were traded preceding the date and up to the time the share subscription agreement was signed.

Strategic partnership to boost Group's penetration into the Japanese market. Fullcast is incorporated in Japan and is listed on the first section of the Tokyo Stock Exchange. Fullcast, through its subsidiaries, provides a range of human resource services to companies in Japan. Advancer Global and Fullcast have also agreed to form the Strategic Alliance Committee ("**SAC**") to (i) oversee and coordinate the activities of the Company and Fullcast in connection with the specific details of the alliance between the Company and Fullcast and (ii) determine the details of establishment and operation of the proposed joint venture to provide foreign labour staffing and employment services in Japan. The joint venture also sets out the role and responsibilities of the parties involved.

This move is positive given recent macro developments in Japan. In 2017, Japanese Prime Minister Shinzo Abe in a move to counter a shrinking labour force that was hampering the world's third-biggest economy started opening up Japan to more foreigners. The admission of foreign domestic workers from overseas – first to Kanagwa and Osaka, and later Tokyo – is aimed at making housekeeping services affordable for the middle class and getting more Japanese women into the workforce. The move also seeks to alleviate the cost of elderly care in Japan through the hiring of foreign domestic workers.

Key risks: Exposure to laws, regulations and policies of originating countries, ability to seek out M&A targets.

Key Historical Financials

Year ended December (S$'000)	FY2015A	FY2016A	FY2017A	FY2018E	FY2019E	FY2020E
Revenue	44,794	50,909	65,260	67,479	77,141	87,534
% Growth	14.8%	13.7%	28.2%	3.4%	14.3%	13.5%
Gross profit	11,876	13,555	18,857	19,295	22,089	25,082
Gross profit margin (%)	26.5%	26.6%	28.9%	28.6%	28.6%	28.7%
Profit before tax	4,863	3,300	3,375	2,995	4,241	5,555
Profit attributable to owners	4,369	2,675	3,056	2,535	3,628	4,806
% Growth	71.3%	-38.8%	14.2%	(17.0%)	43.1%	32.5%
Profit after tax margin (%)	9.8%	5.3%	4.7%	3.8%	4.7%	5.5%
Basic EPS (S$ cents) (1)	3.4	1.5	1.5	1.2	1.5	1.9
Diluted EPS (S$ cents) (1)			1.4	1.1	1.4	1.9
P/E (ex-cash) (x)	9.0	14.7	8.2	11.3	9.6	7.2
Net Debt/Equity			Net Cash	Net Cash	Net Cash	Net Cash

(1) Basic and Diluted EPS from FY15-18 has been adjusted for post-Fullcast placement shares of 207,339,256 and 213,589,256 respectively which takes into account the four month contribution of the new shares for comparability. While FY19 and FY20 takes the full shares outstanding into account.

Group makes foray into Japan

Use of proceeds	% of net proceeds
Expansion of business operations	75%
Working capital	25%
Total	**100%**

Source: Company data, SAC Advisors

Enters into joint venture with Fullcast Holdings. Advancer Global announced that they have entered into a share subscription agreement with Fullcast where 65 million new shares (approximately 35.01% of the existing paid-up capital of the Company) of the Company will be allotted to Fullcast at the subscription price of S$0.34, representing a premium of approximately 14.32% to the volume weighted average price of for trades dones on the Catalist on the 21 June 2018, being the last full market day which the shares were traded preceding the date and up to the time the share subscription agreement was signed.

Following the allotment and issuance of the subscription shares, the shares will represent approximately 25.2% of the enlarged issued and paid-up capital of the Company with the assumption that (i) all of the warrants issued by the Company on 17 May 2017 have been converted, and (ii) the options issued under the Employee Share Option Scheme. Fullcast will also be able to nominate 1 person for appointment as a non-executive director to the board of directors of the Company.

Strategic partnership to boost Group's penetration into the Japanese market. Fullcast is incorporated in Japan and is listed on the first section of the Tokyo Stock Exchange. Fullcast, through its subsidiaries, provides a range of human resource services to companies in Japan. Advancer Global and Fullcast have also agreed to form the SAC to (i) oversee and coordinate the activities of the Company and Fullcast in connection with the specific details of the alliance between the Company and Fullcast and (ii) determine the details of establishment and operation of the proposed joint venture to provide foreign labour staffing and employment services in Japan. The joint venture also sets out the role and responsibilities of the parties involved. The roles and responsibilities of the Company and Fullcast are set out as follows:

Advancer Global will be responsible for:

(a) Arranging the sourcing and management (in sourcing countries) of the relocation of foreign workers to Japan for the purpose of providing labour;
(b) The procurement of training of the relevant workers in the sourcing countries;
(c) Liaising with local partners / professional parties to ensure that the sourcing complies with the applicable laws and regulations in the sourcing countries; and
(d) Advising and providing support on the sourcing.

Fullcast will be responsible for:
(a) The sales activities and development of clientele in Japan;
(b) The training of foreign workers in Japan;
(c) Dealing with the laws, regulations of Japan and the necessary procedures; and
(d) The overall management and administration (including the financial affairs) of the proposed joint venture.

Group makes overseas foray

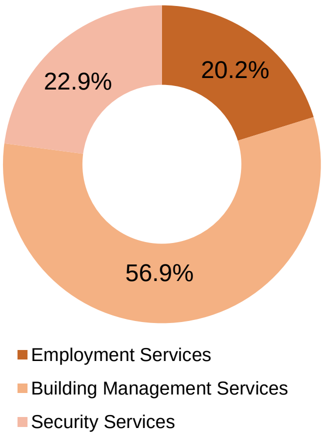
Ultimately, we see the move as positive given recent macro developments in Japan. In 2017, Japanese Prime Minister Shinzo Abe in a move to counter a shrinking labour force that was hampering the world's third-biggest economy started opening up Japan to more foreigners. The admission of foreign domestic workers from overseas – first to Kanagwa and Osaka, and later Tokyo – is aimed at making housekeeping services affordable for the middle class and getting more Japanese women into the workforce. The move also seeks to alleviate the cost of elderly care in Japan through the hiring of foreign domestic workers.

While there are concerns over the resistance of the Japanese to the influx of foreigners, we think the training capability and track record that Advancer Global have, placed them in a good position to alleviate such concerns as the foreign domestic workers will be trained to better understand the Japanese culture and way of life. Overall, we view the development as positive for the Group to expand on their geographical reach outside Singapore and into Japan.

Maintain Buy with a target price of S$0.360. Our DCF-backed target price of S$0.360 represents 16x and 12x FY19E and FY20E ex-cash P/E respectively, which we do not think is excessive given their defensive business and solid mergers and acquisition ("**M&A**") track record. Their recent acquisition of a 20.1% stake in Chiang Kiong, which is going to be earnings accretive for the Group this financial year is a case in point. We also see the new entry of Fullcast as a strategic investor as positive for the Group as this will help their penetration into Japan. ADGL is in a net cash position with a war chest of more than S$25 million in net cash with a solid 3.8% and 5.1% dividend yield for FY18E and FY19E respectively based on their last closing price. We maintain Buy.

Company Background

Revenue Breakdown (FY2017)



Source: Company data, SAC Advisors

- Advancer Global Limited is an established and integrated workforce solutions and services provider in Singapore.
- Their business is divided into three main business segments:

(a) Employment Services: Through its well-recognised brands, “Nation” and “Enreach”, Advancer Global Limited offers integrated and comprehensive employment solutions and services including sourcing, recruitment, training and deployment of foreign domestic workers (“**FDW**”) and foreign workers (“**FW**”).

(b) Building Management Services: Advancer Global Limited provides mainly integrated property management, security services, pest control, landscape, cleaning and stewarding services to hospitals, hotels, commercial and residential properties. This is done under its subsidiaries such as Master Clean Facility Services Pte. Ltd. (“**Master Clean**”), World Clean Facility Services Pte. Ltd. (“**World Clean**”), First Stewards Private Limited (“**First Stewards**”) and Newman & Goh Property Consultants Pte Ltd (“**NGPC**”), Newman & Associates Pte Ltd (“**NAPL**”), Premier Eco-Care Pte. Ltd. (“**Premier Eco-care**”) and Prestige Enviro-Care Pte. Ltd.

(c) Security Services: Advancer Global Limited provides mainly manpower for security solutions and services to residential, commercial and industrial properties, and security escort services. This is done under its subsidiaries, KC Security & Investigation Services Pte. Ltd. (“**KC Security**”), KH Security Agency Pte. Ltd (“**KH Security**”), Ashtree International Pte. Ltd. (“**Ashtree**”) and AGS Integration Pte. Ltd.

Business Segment	Products / Services
Employment services	• Sourcing, recruiting, training and deployment of foreign workers and foreign domestic workers
Building management services	• Cleaning • Stewarding • Pest control • Property and facilities management services
Security services	• Security officers for events and premises • Security escort and bodyguard services • Consultation solution and services • Virtual guard and specialised IT solutions in security systems

Source: Company data, SAC Advisors

Income Statement (S$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Revenue	**50,909**	**65,260**	**67,479**	**77,141**	**87,534**
Cost of sales	(37,354)	(46,403)	(48,184)	(55,052)	(62,452)
Gross Profit	**13,555**	**18,857**	**19,295**	**22,089**	**25,082**
Other operating income	2,747	1,320	1,301	1,301	1,301
Administrative expenses	(12,896)	(16,701)	(18,204)	(19,751)	(21,430)
Operating Profit	**3,406**	**3,476**	**2,392**	**3,638**	**4,952**
Share of profit from JV	0	0	704	704	704
Finance costs	(106)	(101)	(101)	(101)	(101)
Profit before tax	**3,300**	**3,375**	**2,995**	**4,241**	**5,555**
Income tax	(504)	(262)	(285)	(403)	(528)
Profit for the year/period	**2,796**	**3,113**	**2,710**	**3,838**	**5,027**
Profit attributable to owners of company	2,675	3,056	2,535	3,628	4,806

Cash Flow Statement (S$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profit before tax	**3,300**	**3,375**	**2,995**	**4,241**	**5,555**
Depreciation & amortisation	609	1,155	555	669	802
Change in working capital	359	(1,466)	1,389	(5)	82
Others	61	(150)	(321)	(472)	(633)
Net Cash (used in)/ from operations	**4,329**	**2,914**	**6,065**	**6,225**	**7,975**
Purchase of PPE	(484)	(886)	(975)	(1,072)	(1,179)
Acquisition of subsidiary	(4,772)	(1,152)	(553)	0	0
Net Cash (used in)/ from investing	**(5,226)**	**(6,002)**	**(1,528)**	**(1,072)**	**(1,179)**
Net change in equity	9,460	5,000	0	0	0
Net change in debt	(473)	(181)	0	0	0
Dividends paid	(2,606)	(1,654)	(1,788)	(2,274)	(3,005)
Net Cash (used in)/ from financing	**4,595**	**2,883**	**(1,889)**	**(2,375)**	**(3,106)**

Balance Sheet (S$'000)

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
As at 31 Dec					
Cash and bank balances	8,238	8,033	10,676	13,455	17,145
Trade and other receivables	11,088	16,622	17,453	18,326	19,242
Inventories	26	38	46	55	66
Other assets	0	0	674	594	453
Total current assets	**19,352**	**24,693**	**28,849**	**32,429**	**36,840**
Property, Plant and Equipment	1,488	2,511	2,637	2,768	2,907
Goodwill on consol.	5,343(1)	5,489	5,489	5,489	5,489
Other non-current assets	2,258	1,698	1,698	1,698	1,698
Total non-current assets	**9,089**	**9,698**	**9,824**	**9,955**	**10,094**
Total assets	**28,441**	**34,391**	**38,716**	**42,428**	**46,978**
Bank borrowings	597	630	630	630	630
Trade and other payables	9,986	9,608	11,836	12,713	13,657
Other current liabilities	638	635	635	635	635
Total current liabilities	**11,221**	**10,873**	**13,101**	**13,978**	**14,922**
Total non-current liabilities	1,043	1,453	1,453	1,453	1,453
Total liabilities	**12,264**	**12,326**	**14,554**	**15,431**	**16,375**
Share Capital	13,562	18,378	18,378	18,378	18,378
Retained earnings	4,761	6,163	8,085	10,710	14,095
Capital reserve	(2,603)	(2,920)	(2,920)	(2,920)	(2,920)
Equity attributable to shareholders	**15,720**	**21,621**	**23,543**	**26,168**	**29,553**
Non-controlling interests	457	444	619	829	1,050
Total Equity	**16,177**	**22,065**	**24,163**	**26,998**	**30,603**
Total liabilities and equity	**28,441**	**34,391**	**38,716**	**42,428**	**46,978**

(1) Restated to adjust the goodwill in relation to the acquisition of Premier Eco-Care, Prestige Enviro-care, and Green Management in October 2016

Ratios

	Fiscal Year Ended				
	FY2016	FY2017	FY2018F	FY2019F	FY2020F
Profitability (%)					
Operating profit margin	6.7%	5.3%	3.5%	4.7%	5.7%
Profit before tax margin	6.1%	5.2%	4.4%	5.5%	6.3%
Profit after tax margin	5.3%	4.7%	3.8%	4.7%	5.5%
Liquidity (x)					
Current ratio	1.7	2.3	2.2	2.3	2.5
Quick ratio	1.7	2.3	2.2	2.3	2.5
Interest coverage ratio	32.1	34.4	38.0	53.8	70.5
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/E	17.5	15.9	13.0	9.6	7.4
Core P/E at target price	23.3	21.3	17.4	12.7	9.9
P/E (ex-cash) at target price	20.5	18.7	15.3	11.2	8.7
P/B	3.1	2.3	2.1	1.9	1.6
EV/EBITDA	13.3	12.7	11.4	8.2	6.3
Cash Conversion Cycle					
Trade receivable days	53	53	53	53	53
Inventory days	N/A	N/A	N/A	N/A	N/A
Trade payable days	9	9	9	9	9
CCC days	N/A	N/A	N/A	N/A	N/A
Returns					
Return on equity	25.9%	16.4%	17.0%	21.1%	24.3%
Return on capital employed	25.2%	15.8%	16.3%	20.3%	23.5%
Dividend payout ratio	50.0%	50.0%	50.0%	50.0%	50.0%

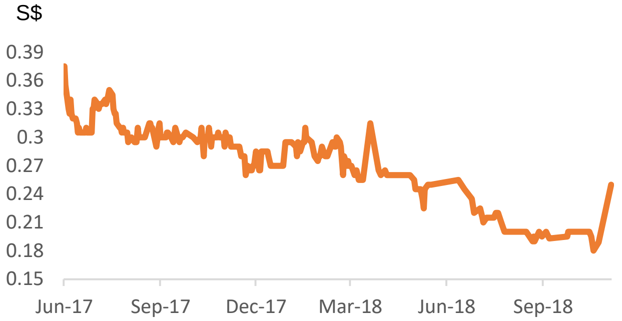
Sanli Environmental Limited

Date: 19 November 2018

BUY
(Maintained)

Target Price: S$0.360 (+44%)

SANLI SP
Price: S$0.250 (as at 16 November 2018)



Price performance	1M	3M	6M	1Y
Sanli	25.0%	25.0%	6.4%	-13.8%
Catalist Index	-5.0%	-11.7%	-23.8%	-32.9%

Market capitalisation	$67.2 million
Current Price	S$0.250
Shares outstanding	268.7 million
Free Float	20.2%
Major shareholder	Management 75% Heliconia Capital Management 8%
Recommendation of other brokers	N/A

Source: Company data, Bloomberg, SAC Advisors

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1H19 revenue grew 12.9%

1H19 revenue increased by 12.9% to S$37.4 million. Sanli Environmental Limited ("**Sanli Environmental**", the "**Group**", and the "**Company**") reported 1H19 results that saw revenue grow by 12.9% year-on-year to S$37.4 million. The increase in revenue was mainly due to higher contribution from its Engineering, Procurement and Construction ("**EPC**") segment of 31.9% or S$6.9 million, which was partially offset by lower revenue from the Operations and Maintenance ("**O&M**") segment of 33.5% or S$3.0 million.

Group's order book boosted by S$54.3 million with new contracts. The new EPC and O&M contracts worth a total of S$54.3 million bolstered the Group's order book to S$134.4 million. The most significant win was a sub-contract from the landmark S$985 million polder development project by the Boskalis and Penta-Ocean Joint Venture. This sub-contract is expected to contribute to the Group revenue for the next four years from the FY19.

Gearing up for future development. Sanli Environmental is adopting the "stabilise then grow" strategy. The Group is focusing on securing water projects that it can handle at its current capabilities. In the meantime, the Group is also gearing up for the future. Administrative expenses increased by 36.6% or S$0.8 million to S$2.9 million in 1H19. The Group said the increase in cost was due to the hiring of more project management team and engineers in preparation for future projects.

Maintain BUY with an unchanged target price of S$0.360. We are keeping our rating and target price unchanged. Sanli has achieved its objective in securing a contract for the landmark land reclamation project, which will put the Group in a favorable position in securing similar projects in the future. The Group is also sticking to its strategy and steadily growing to become a top water player.

Key risks: Reliant on Singapore public sector projects.

Key Financials

Year ended March (S$'mn)	FY2015A	FY2016A	FY2017A	FY2018A	FY2019E	FY2020E
Revenue	37.3	57.3	64.3	75.6	99.2	122.0
% Growth	92.4%	53.3%	12.3%	17.6%	24.0%	23.0%
Gross profit	6.4	11.2	10.4	10.9	15.9	19.5
Gross profit margin (%)	17.1%	19.6%	16.2%	14.4%	16.0%	16.0%
Profit attributable to owners (before IPO expenses)	3.2	5.9	5.2	3.1	7.1	8.8
Profit attributable to owners	3.2	5.9	5.2	4.3	7.1	8.8
% Growth	84.6%	82.0%	(13.0%)	(17.3%)	49.1%	23.2%
Profit after tax margin (%)	8.7%	10.4%	8.0%	4.0%	7.2%	7.2%
EPS (S$ cents)*	1.5	2.7	2.4	1.2	2.6	3.3
P/E (x)	19.5	10.8	12.3	20.0	9.2	7.5
EV/EBITDA (x)	13.4	7.3	8.1	8.7	6.0	4.9
Net Debt/Equity			Net cash	Net cash	Net cash	Net cash
Dividend yield	N/A	N/A	N/A	1.2%	1.8%	2.2%

**EPS for FY15, FY16 and FY17 were calculated based on the pre-Invitation share capital of 216,657,813 shares*
N/A: Not applicable

1H19 results review

Business Overview:

Sanli is an environmental engineering company with more than 10 years of track record in water and waste management. Leveraging its technical know-how and industry knowledge, it aprovides total solutions and services to customers in an efficient and cost-effective manner. Its expertise is in the design, supply, delivery, installation, commissioning, maintenance, repair and overhaul of mechanical and electrical equipment as well as instrumentation and control systems in wastewater treatment plants, water reclamation plants, NEWater plants, waterworks, service reservoirs, pumping stations and incineration plants.

Revenue (S$'000)	1H19	1H18
Total	**34,728**	30,754

Source: SAC Advisors, Company data

1H19 revenue increased by 12.9%. Sanli Environmental reported 1H19 results that saw revenue grow by 12.9% year-on-year to S$37.4 million. The increase in revenue was mainly due to higher contribution from its Engineering, Procurement and Construction segment of 31.9% or S$6.9 million, which was partially offset by lower revenue from the Operations and Maintenance segment of 33.5% or S$3.0 million. Gross profit margin held steady at 15.7% in 1H19 as compared to 15.8% in 1H18. Overall, the Group recorded a profit before tax of S$2.1 million in 1H19, a 91.8% increase as compared to the 1H18 results that included one-off IPO expenses of S$1.2 million.

Sanli Environmental's order book boosted by S$54.3 million with new contracts. Sanli Environmental announced that it has secured new EPC and O&M contracts worth a total of S$54.3 million which bolstered the Group's order book to S$134.4 million. The most significant win was a sub-contract from the landmark S$985 million polder development project at Pulau Tekong by the Boskalis and Penta-Ocean Joint Venture. The Group will supply and install mechanical (water management) package works. This sub-contract is expected to contribute to Sanli's revenue for the next four years from the FY19. As Singapore plans to expand the city's land area by an additional 7-8% of reclaimed land by 2030, the Group hopes that being the pioneer in the reclamation project will put it in good stead in securing similar projects in the future. This is also in line with the Group's plan to diversify into other water-related projects that are not managed by the Public Utilities Board ("**PUB**").

Gearing up for future development. Sanli Environmental is adopting the "stabilise then grow" strategy, in which the primary focus of the Group now is to build up for the future. The Group is focusing on securing water projects that it can handle at its current capabilities, which is in the region of S$200 – S$300 million. For larger contracts, the Group will look for suitable partners to jointly bid for bigger projects. In the meantime, the Group is also gearing up for the future. Administrative expenses increased by 36.6% or S$0.8 million to S$2.9 million in 1H19. The Group said the increase in cost was due to the hiring of more project management team and engineers in preparation for future projects. The Group expects order books to pick up in the 2nd half based on historical trend. It is also expecting more jobs to be available as economy enters a downturn.

Maintain BUY with an unchanged target price of S$0.360. We are keeping our rating and target price unchanged. Sanli has achieved its objective in securing a contract for the landmark land reclamation project, which will put the Group in a favorable position in securing future similar projects and maintain a healthy order book. The Group is also sticking its growth plan and steadily strengthening its position as a top water player in Singapore.

Company Background

- Sanli is an environmental engineering company with more than ten years of experience in the field of water and waste management. Leveraging on its technical know-how and industry knowledge, it provides total solutions and services to customers in an efficient and cost-effective manner.

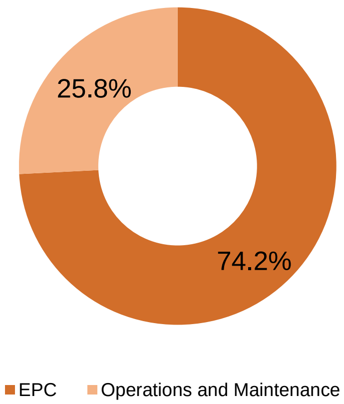
- Its expertise lies in the design, supply, delivery, installation, commissioning, maintenance, repair and overhaul of mechanical and electrical equipment as well as instrumentation and control systems. The types of infrastructure include wastewater treatment plants, water reclamation plants, NEWater plants, waterworks, service reservoirs, pumping stations and incineration plants.

- Sanli has two main business segments:

(a) Engineering, Procurement and Construction (“**EPC**”): Sanli undertakes EPC work for water and waste management. Its services include process upgrading of water treatment plants, upgrading of pumping station capacities, replacement of aged M&E equipment, and design and build of various treatment process systems. These turnkey contracts are higher in value due to equipment procurement, but margins are lower compared with maintenance business.

(b) Operations and Maintenance: Sanli provides operation and maintenance services for the equipment used in water and waste management infrastructure. It maintains a workshop to undertake major repair and overhaul of the equipment. It provides round the clock corrective maintenance services to the customers when the facility encounters equipment problems.

Revenue Breakdown (FY2018)



Source: Company data, SAC Advisors

Business Segment	Products / Services
Engineering, Procurement and Construction	• Water Management • Waste Management
Operations and Maintenance	• Corrective and preventive maintenance services

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