SAC Year End Review 2019

Date: 16th December 2019

Source: SAC Capital

2019 – a year in review and look ahead

Trade frictions and deglobalisation weighed on growth for 2019, and despite three (3) rate cuts this year by the US Federal Reserve, inflation has remained stubbornly low. In Singapore, GDP forecasts was also adjusted sharply lower with official forecasts by the Ministry of Trade and Industry at 0 to 1% vs. the previous estimated rate of 1.5% to 2.5%. As we head into 2020, a deeper economic slowdown is a key risk to consider and while there has been a pause in the US-China trade conflict, any material escalation of their dispute will see the economy go into yet another tailspin though we sense the impact to the markets will remain muted due to general investor fatigue towards such news. In 2020, we view with increasing concern that interest rates near their lower bounds will hamper the effectiveness of monetary policy in boosting growth in the event of a drastic slowdown. In this year end report, we recap significant events in 2019, highlight some key emerging trends, review the Singapore market and end with a highlight on stock picks in our conviction list.

Terence Chua	Lam Wang Kwan	Chow Zheng Jie	Nicholas Neo
tchua@saccapital.com.sg	lamwk@saccapital.com.sg	chowzj@saccapital.com.sg	nneo@saccapital.com.sg
+65 6232 3236	+65 6232 3237	+65 6232 3239	+65 6232 3224

The World in 2019

Trade War continues

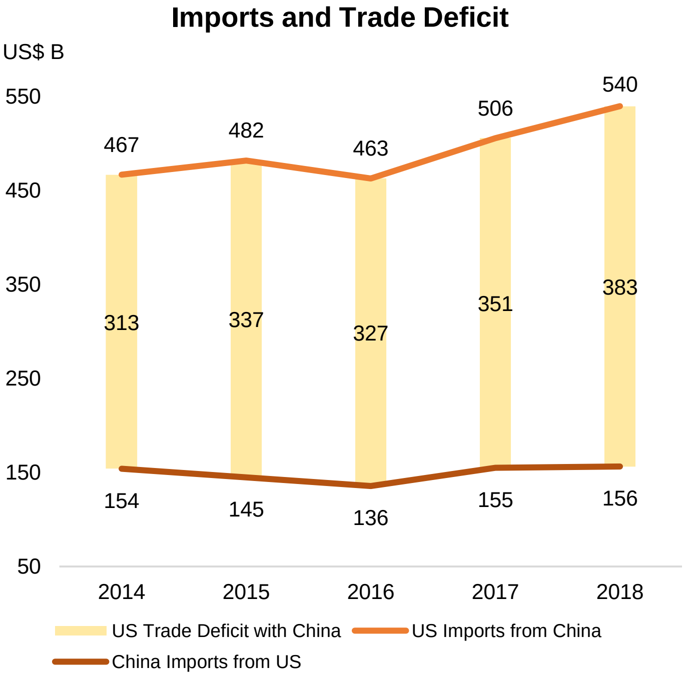
2019 began with tariffs on US$250 billion of Chinese imports and US$110 billion of US imports in place, with rates ranging between 5 and 25 percent. Higher tariffs on Chinese imports were originally set to kick in on 1 January, however a 90 day truce in place since December 2018 meant that the first two months of the year saw little change in the status quo from the end of 2018. Several meetings between US and Chinese negotiators yielded little concession from either end. The truce was extended as the March 1 deadline drew near, with President Trump citing progress in trade talks. China similarly continued to suspend imposing additional tariffs on US goods. Both sides did not give concrete timeframes on when the suspensions would expire, as negotiations continued through March and April.

Progress towards a deal took an abrupt turn in early May, when President Trump announced and imposed a 15 percentage point increase in tariffs on US$200 billion worth of Chinese goods, at a rate of 25 percent. These were the tariff rates initially intended to be charged at the beginning of the year. Trump also tabled the possibility of tariffs on an additional US$325 billion of Chinese goods, which would effectively cover the entirety of Chinese exports to the United States. Consequently, China announced higher tariff rates on US goods. The United Sates Department of Commerce also added Huawei Technologies Co., Ltd. ("**Huawei**") and its affiliates to its "Entity List", banning US companies from dealing with the Chinese telecommunications giant.

June saw the reinstatement of a truce at the G20 Summit in Osaka, where President Xi and Trump met in person. Both China and the US agreed to restart trade talks, and President Trump suggested relaxing the ban on US companies dealing with Huawei. The subsequent months were punctuated with negotiations, concessions as well as threats to implement additional tariffs. In August, the Office of the United States Trade Representative ("**USTR**") announced that tariffs on approximately US$300 billion worth of goods would be imposed in two phases, starting with 1 September and followed by 15 December. China responded with retaliatory tariffs on US$75 billion of American goods.

In the fourth quarter of the year, both sides started showing more signs of goodwill in the run-up to the 15 December deadline. Exemptions were made on goods subject to tariffs including American agricultural products as well as equipment and material originating from China. Some increases in existing tariffs were also postponed. Negotiations towards a "Phase 1" agreement were announced in October, and continued through November. Yet, amid contradictory statements and the lack of concrete developments, it is unclear if a settlement will be reached by the end of 2019.

Moving forward, China will likely be more willing to make concessions to expedite a settlement, given its slower economic performance that could persist into 2020. President Trump could also be incentivised to reach a definitive agreement, interim or otherwise - which would have a positive effect on sentiment ahead of the US presidential election in November 2020.



Source: Bloomberg, SAC Capital

Figures may not sum due to rounding

The World in 2019

Unrest in Hong Kong

In February 2019, Hong Kong's Security Bureau proposed amendments to a bill that would allow the extradition of criminal suspects in Hong Kong to countries or territories which Hong Kong did not have an extradition treaty with - including Mainland China. This stemmed from an incident where Hong Kong was unable to extradite an alleged murderer to Taiwan owing to the absence of an extradition agreement. Opponents to the proposed amendments feared that this could expose political opponents and activists in Hong Kong to potentially unjust prosecution and punishment in Mainland China.

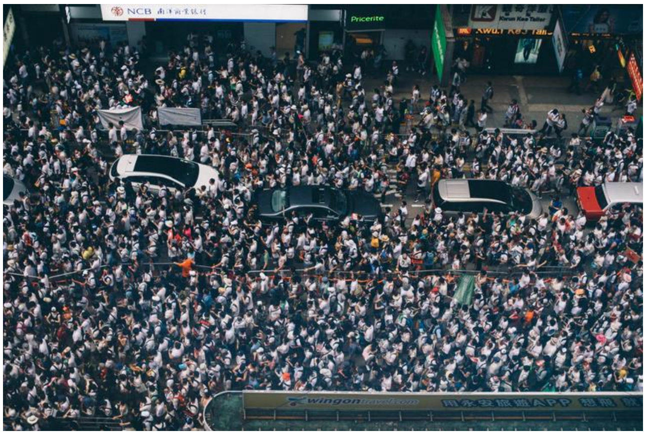
The first of the protest marches was held at the end of March 2019, before the first reading of the bill in early April. Despite further protests in April, culminating in a protest that saw an estimated 1 million protestors take to the streets on 9 June, the second reading of the bill was scheduled for 12 June. Large scale protests took place on 12 June, with protestors blocking key roads and access to government buildings - forcing the postponement of the debate on the bill. In a surprising reversal, Hong Kong Chief Executive Carrie Lam announced the indefinite suspension of the bill three days later on 15 June. With many fearing that the bill could be revived, protests continued with increasing frequency and violence, coupled with vandalism of public infrastructure and private property. The announcement in early September that the bill would be fully withdrawn did little to alleviate the situation, as protestors laid out further demands including amnesty for arrested protesters and an investigation into alleged police brutality.

A landslide victory for pro-democracy candidates in November's District Council elections managed to placate protestors, with fewer demonstrations and clashes in the following weeks. Yet, in a sign that emotions continue to run high, a demonstration to mark the half year anniversary of protests drew an estimated 800,000 demonstrators on the 8th of December.

Overseas markets have been affected by negative sentiment owing to the unrest, and the protests have been a pain-point in trade negotiations between the United States and China. Singapore-listed Mapletree North Asia Commercial Trust saw its share price take a hit after protestors damaged its Festival Walk mall in November, and other counters with exposure to Hong Kong have also seen price swings in response to major developments relating to the protests.

In November 2019, the United States Senate passed two bills - the *Hong Kong Human Rights and Democracy Act of 2019* and the *Protect Hong Kong Act*. The former, in addition to several other provisions, requires the US Government to impose sanctions against Chinese and Hong Kong officials it deems responsible for human rights abuses in Hong Kong. The latter prohibits the export of crowd control munitions and equipment to law enforcement agencies in Hong Kong. These bills were signed into law by President Trump on 27th November 2019. Beijing decried the act, accusing the United States of interfering in domestic affairs and threatening "firm countermeasures" in response.

As evident from the large turnout at demonstrations earlier in December, demonstrators have not lost steam and we could expect to see a continuation of similar events in 2020, barring the Hong Kong government giving in to all of the protestors' demands.



Protestors at Causeway Bay in June

The World in 2019

Brexit deadlock

2019 started with a setback to then prime minister Theresa May's government, as the UK parliament voted against the Withdrawal Agreement 432 to 202, the largest parliamentary defeat in modern British political history. As the 2 year deadline set out by Article 50 (29 March 2019) to withdraw from the EU loomed, it seemed that a no-deal brexit was inevitable when parliament rejected Prime Minister May's Brexit deal for a second time on the 12th of March.

A hard Brexit at the end of March was avoided when the European Council agreed to extend the exit deadline. The UK would leave the EU in May should the Withdrawal Agreement be passed by the end of March, otherwise the UK would have to indicate its way forward by 12 April. Following the third vote against the Withdrawal Agreement on 29 March, the Article 50 deadline was extended to 31 October. This also led to the resignation of Prime Minister May. May's resignation paved the way for Boris Johnson to be elected as leader of the Conservative Party and Prime Minister of the United Kingdom in July.

The United Kingdom once again looked to be headed towards a no-deal Brexit, when Prime Minister Johnson announced his intent to suspend parliament in the weeks before 31 October. This was a move widely seen as being made to force a no-deal Brexit, by providing less time for MPs to pass legislation to prevent it. Shortly after, opposition parties rallied in an emergency debate to prevent a no-deal Brexit. Eventually, a bill was passed requiring the Prime Minister to seek a further extension of the Article 50 deadline from 31 October to 31 January 2020, should MPs fail to approve either a withdrawal agreement, or leaving the EU without a deal, by 19 October. The Supreme Court subsequently ruled the suspension of parliament as unlawful, and parliament continued to debate on the terms of the withdrawal agreement, including the key topic of the Irish backstop.

There looked to be headway towards a finalised deal by mid October, with the European Commission and the UK agreeing on a revised withdrawal agreement that contained new amendments relating to the Irish border issue.

However, parliament once again delayed its approval of the agreement, resulting in the third request for, and ensuing approval of an extension of the withdrawal deadline to 31 January 2020. This was followed by Prime Minister Johnson calling for an early general election, to break the deadlock that has resulted in little progress towards a settlement throughout 2019. On 6 November, Parliament was dissolved, and elections were held on 12 December, where Johnson's Conservative party won a majority. A clear majority would allow Johnson to push a deal through parliament without further delay, and we could see a resolution to Brexit as soon as the end of January 2020.

As of 12 Dec 2019		1-month return	YTD Return
EQUITY INDICES			
Developed			
S&P 500	3,168.57	2.41%	26.40%
FTSE 100	7,273.47	-1.06%	8.11%
Nikkei 225	23,424.81	-0.4%	17.04%
Hang Seng Index	26,994.14	-0.26%	4.44%
Straits Times Index	3,194.67	-2.24%	4.1%
Emerging			
KOSPI	2,137.35	-0.17%	4.72%
SHCOMP	2,915.70	0.03%	16.91%
SENSEX	40,581.71	0.59%	12.51%
IBOV	112,199.70	5.79%	27.66%
CURRENCIES			
EUR/USD	1.1130	1.10%	-2.94%
USD/CNY	7.0044	-0.05%	1.83%
GBP/USD	1.3161	2.46%	3.19%
COMMODITIES (in USD)			
Gold per oz.	1,469.80	0.93%	14.61%
Oil (WTI)	59.18	4.10%	22.02%
BONDS (%, % points)*			
US Treasury 10-year Yield	1.894	-0.042	-0.791
JGB 10-year Yield	-0.021	0.008	-0.016
German Bund 10-year Yield	-0.271	-0.017	-0.510

Source: Bloomberg, SAC Capital
*Bloomberg ticker: GT10 / GTJPY10YR / GTDEM10YR

Singapore in 2019

Digital Bank Licences

Under the existing internet banking framework introduced in 2000, only companies in the Singapore banking groups, such as DBS, OCBC and UOB, were allowed to pursue digital banking business. In essence, a digital bank is a traditional bank except that it operates entirely online without a single physical infrastructure, such as ATM or bank branch. And as for customers of a digital bank, they will control their finances entirely from their smartphones or computers.

In June 2019, the Monetary Authority of Singapore ("**MAS**") announced that it will issue up to five new digital bank licences in Singapore, which will be extended to non-bank players. This will include up to two digital full bank licences and up to three digital wholesale bank licences. Digital full bank licences will allow licensees to provide a wide range of financial services and take deposits from retail customers whereas digital wholesale bank licences will allow licensees to serve SMEs and other non-retail segments.

According to Senior Minister and Chairman of MAS Mr Tharman Shanmugaratnam, "The new digital bank licences mark the next chapter in Singapore's banking liberalisation journey. They will ensure that Singapore's banking sector continues to be resilient, competitive and vibrant." In addition, MAS is hoping that the entry of new players will add diversity and help to strengthen Singapore's banking system in the digital economy of the future and for these players to cater to the under-served segments of the market with their innovative business models and strong digital capabilities.

The applications for the digital bank licences are open to companies headquartered in Singapore and controlled by Singaporeans or foreign companies if they form a joint venture with a local company and meeting the headquarter and control requirement. In addition, the applicant must 1) have three or more years of track record in operating an existing business, in the technology and e-commerce fields, 2) provide clear value propositions on how it can serve existing unmet or underserved needs and 3) demonstrate its sustainable digital banking business model.

Key requirements for digital full bank

	Restricted Digital Full Bank		Digital Full Bank
	Entry Point	Progression	
Minimum Paid-up capital	**S$15m**	To progressively increase	**S$1.5bn**
Deposit caps	**Aggregate deposit cap**: S$50m deposits *Only can accept deposits from limited scope of depositors* **Individual depositor cap**: S$75k	**Aggregate deposit cap**: To increase subject to meeting MAS' criteria[1] **Individual depositor cap**: S$75k	**No deposit cap**
	Covered by Deposit Insurance Scheme		
Capital and liquidity rules	**Capital**: Same as local banks[2] **Liquidity**: 16% minimum liquid assets		**Capital**: Same as local banks[2] **Liquidity**: Same as local banks[3]
Business restrictions	Offer simple credit and investment products[4] Banking operations in not more than 2 overseas markets	No business restrictions after meeting MAS' criteria	Full functioning bank
	• 1 physical place of business only • No minimum account balance and fall below fees • Compliance with unsecured credit rules[5] • Allowed to offer cashback services through electronic funds transfer at point of sale (EFTPOS) terminals at retail merchants, but no access to automated teller machines ("ATMs") or cash deposit machines ("CDMs") network		

Source: MAS

Key requirements for digital wholesale bank

Minimum Paid-up capital	S$100m
Deposit restrictions	Digital wholesale banks will not be able to take Singapore dollar deposits from individuals, except for fixed deposits of at least S$250,000. It is however free to open and maintain business deposit accounts for SMEs and corporates.
Capital and liquidity rules	Same as existing wholesale banks
Business restrictions	1 physical place of business To only conduct activities within the proposed business scope

Source: MAS

Following the kick-off of application process in August, several fintech and non-fintech platers have expressed their interest, including China's largest online financial company Ant Finacial, lending platform Validus Capital, ride-hailing firm Grab, gaming company Razer, telecommunications giant Singtel and various other fintech players such as FOMO Pay, MatchMove, Funding Societies, MaxFinx, Xfers and oCap. There had also been reports that local lender OCBC had agreed in principle to join a group led by Validus Capital and Temasek Holdings to apply for a wholesale digital banking license.

The applications will close on 31 December 2019 and MAS is expected to announce the successful applicants by mid-2020 and the new digital banks will start operations by mid-2021.

Singapore in 2019

Grant for Equity Market Singapore

At the start of the year, the Monetary Authority of Singapore ("**MAS**") unveiled a S$75 million initiative, called the Grant for Equity Market Singapore ("**GEMS**"), in an attempt to boost equities research and enhance Singapore's status as a hub for equity listings. According to Finance Minister and MAS board member Heng Swee Keat, the new initiative will help to further Singapore's vision to serve as Asia's centre for capital raising and enterprise financing.

MAS has set out GEMS to be a three-year program to help enterprises seeking to raise capital through Singapore's equity market and it comprises of three components:

1) **Listing Grant** to facilitate enterprises seeking a listing on the Singapore Exchange ("**SGX**") by defraying part of the IPO costs.

Qualifying Issuer	
Issuers with an Initial Public Offering, excluding Real Estate Investment Trusts and Business Trusts, on SGX	
Eligibility	**Level of funding**
Enterprises in the new technology sector[(1)] with minimum market cap of S$300 million	Co-fund 70% of eligible expenses, with grant capped at S$1 million
Enterprises from the high growth sector[(2)] with minimum market cap of S$300 million	Co-fund 20% of eligible expenses, with grant capped at S$500,000
Enterprises from all sector with no minimum market cap	Co-fund 20% of eligible expenses, with grant capped at S$200,000
Eligible Expenses	
• Issuer manager fees • Sponsor fees • Underwriting fees • Placement fees • Auditor fees • Legal fees • Market research fees • SGX listing fees	

[(1)]Includes financial technology, consumer digital technology, on-demand services and gaming services/peripherals
[(2)]Includes digital cluster, advanced manufacturing, hub services, logistics, urban solutions & infrastructure and healthcare

Source: MAS, SAC Capital

MAS hopes that the listing grant will encourage eligible enterprises to list on the SGX .

2) **Research Talent Development Grant** to strengthen Singapore's research coverage of enterprises by grooming equity research talent.

Qualifying Issuer
Financial institutions based in Singapore with equity research capabilities
Level of funding
• 70% of the salaries for fresh graduates hired as equity research analysts • 50% of the salaries for re-employed experienced equity research analysts
Eligible Expenses
Fixed basic salary including fixed allowances, but not including bonuses or variable income.

Source: MAS, SAC Capital

Through this Grant, MAS hopes to encourage financial institutions to hire research professionals and in so doing, enhance research coverage, particularly for small and mid-cap enterprises. This will in turn help to improve investor knowledge and facilitate price discovery and liquidity.

3) **Research Initiatives Grant** to support crowd-sourced initiatives to propel the development of Singapore's equity research ecosystem

MAS has also earmarked funds to crowd source initiatives, such as publication of industry or sector primers, innovative wats to distribute research and disseminate enterprise information to investors.

GEMS is the latest move by the MAS to strengthen the SGX as a centre for capital raising and enterprise financing as well as to boost Singapore's standing as a global enterprise financing hub.

According to the MAS, the grant for GEMS will be funded through the Financial Sector Development Fund ("**FSDF**"). The FSDF was established in 1999 under the MAS Act for the purpose of promoting Singapore as a financial centre; developing and upgrading skills and expertise required by the financial services sector; developing and supporting educational and research institutions, research and development; and developing infrastructure to support the financial services sector in Singapore.

Singapore in 2019

Proposed increase of 45% leverage limits for S-REITs

The Monetary Authority of Singapore ("**MAS**") announced that it is considering raising the current 45% leverage limit for Singapore Real Estate Investment Trusts ("**S-REITs**") in a move to enable S-REITs to better compete against private capital and foreign REITs when making real estate acquisitions.

Currently, a S-REIT's leverage ratio is computed by the total borrowings and deferred payments of a REIT divide by the REIT's deposited assets. The leverage limit is currently set at 45% as it seeks to ensure that REITs do not over-extend themselves by pursuing highly geared property acquisitions and to mitigate the risk of a REIT having to liquidate a major asset in its portfolio in order to service or repay debts.

While regulatory limit is set at 45%, it is noted that S-REIT often try to maintain a 5% buffer so that they can better respond to changing market conditions such as declining property prices. This leads to REITs generally keeping their leverage to within 40%. As of 31 May 2019, the average sector's gearing was at 34%. As such, MAS has received feedback to allow S-REITs to have a higher leverage limit so that they have more flexibility to optimise their capital structure given that debt tends to be a cheaper source of capital than equity and takes less time to raise. This is particularly important when S-REITs acquire overseas assets from third parties, which tend to involve a competitive bidding process and are highly time-sensitive. Drive by the search of assets with higher yield spread, around 80% of S-REITs and property trusts in Singapore own offshore assets in regions such as Asia-Pacific, South Asia, North America and Europe and the trend of acquiring overseas assets is set to continue.

In addition, regional competition is also intensifying, with India successfully launching its first REIT, Indonesia working on its first REIT offering and other Asian jurisdictions, such as China and the Philippines, working on their respective REIT format.

MAS hopes that the listing grant will encourage eligible enterprises to list on the SGX .

According to MAS, one of the possible approaches to recalibrate the leverage limit is to use a combination of leverage limit and minimum interest coverage requirement ("**ICR**") in determining the amount of leverage S-REITs can take on. Under this approach, S-REITs may take on higher leverage if they are able to meet a minimum ICR, a measure of a company's debt-servicing ability. MAS hopes that this approach will provide S-REITs with more flexibility to optimise their capital structure when bidding for assets and the minimum ICR will serve as an addition safeguard. At the same time, this will also encourage S-REITs to carefully assess their debt-servicing ability before taking on additional debt. MAS is considering the option of allowing a S-REIT's leverage to exceed 45% but not more than 50% if the S-REIT has a minimum ICR of 2.5 times, after taking into account the interest payments arising from the new debt.

In addition, MAS is also seeking views on whether it is appropriate for a S-REIT that has demonstrated good financial discipline, such as having a higher ICR threshold, to be allowed a higher leverage at 55%. In relation, MAS also proposed requiring S-REITs to disclose both their leverage ratios and ICRs in interim-result announcements and annual reports, and to standardise the computation of the ICR for comparability across the sector in an attempt to promote market transparency.

Currently, S-REITs that intend to raise funds from the general investing public must first be authorised by MAS under the Authorisation Regime and must issue a prospectus that is registered by MAS and for them to undertake a fundraising exercise to targeted accredited investors, they must meet certain conditions. As such, in a move to make the fund-raising process for S-REITs more efficient and bring it in line with the fund-raising process for companies and business trusts, MAS also prosed to streamline the fund-raising process for S-REITs, such as to remove the requirement for them to submit a notification to MAS to obtain a "Restricted Scheme" status when they make an offer of units to accredited and other investors.

Singapore in 2019

Economic Performance

In the latest data released by the Ministry of Trade and Industry ("**MTI**"), the Singapore economy grew 0.5% year-on-year ("**y-o-y**") in the 3rd quarter of 2019. On a quarter-on-quarter seasonally-adjusted annualized ("**q-o-q**") basis, the economy expanded by 2.1%, a reversal from the 2.7% contraction in the 2nd quarter.

The 3rd quarter GDP growth was largely supported by the manufacturing sector and the business services sector.

On a y-o-y basis, the manufacturing sector in the 3rd quarter shrank by 1.7%, moderating from the 3.3% decline in preceding quarter. Despite most of the other clusters expanded during the quarter, the sector was largely weighed down by the electronics cluster owing to a decline in output in the semiconductors segment. Amongst all the cluster, the biomedical manufacturing cluster posted the strongest growth. On a q-o-q basis, the manufacturing sector grew by 7.6%, a reversal from the 4.2% contraction in the previous quarter.'

Supported by the professional services segment, the business services sector grew 0.9% y-o-y, slightly faster than the 0.8% growth recorded in the preceding quarter. On a q-o-q basis, the business services sector grew by 3.2%, a reversal from the 1.6% contraction in the previous quarter.

The wholesale & retail trade sector performed poorly in the 3rd quarter. On a y-o-y basis, the sector contracted by 3.3%, extending the 3.5% decline in the previous quarter. The wholesale trade segment shrank primarily due to a contraction in the machinery, equipment & supplies sub-segment due to the weak performance of the country's electronics exports. At the same time, the retail trade segment also contracted due to declines in both motor vehicular and non-motor vehicular retail sales. On a q-o-q basis, the sector shrank by 1.7%, which was a slower decline as compared to the 9.2% contraction previously

According the MTI, there are signs of stabilisation in the global economy even though the global growth remains weak. Performance of the manufacturing sector and trade-related sectors are expected to remain subdued in view of the ongoing downswing of the global electronics cycle. On the other hand, sectors such as construction, information & communications, finance & insurance, as well as education, health & social services are projected to continue to post steady growth. As such, the 2019 full-year GDP growth forecast is slightly adjusted upwards to "0.5% to 1.0%" from "0.0% to 1.0%"

SECTORAL GROWTH RATES	3Q18	4Q18	2018	1Q19	2Q19	3Q19
	Year-on-Year % Change					
Goods Producing Industries	**2.5**	**3.5**	**5.0**	**0.1**	**-2.4**	**-0.9**
Manufacturing	3.5	4.6	7.0	-0.4	-3.3	-1.7
Construction	-2.6	-1.2	-3.7	2.7	2.8	2.9
Services Producing Industries	**2.8**	**1.5**	**2.9**	**1.2**	**1.2**	**0.9**
Wholesale & Retail Trade	2.4	-0.8	1.7	-2.5	-3.5	-3.3
Transportation & Storage	1.6	0.5	1.3	1.0	2.4	0.0
Accommodation & Food Services	3.4	3.5	2.8	2.2	1.2	2.0
Information & Communications	5.1	5.0	5.4	5.0	4.1	3.4
Finance & Insurance	3.9	3.7	5.8	3.2	5.1	4.3
Business Services	3.0	2.6	2.8	1.5	0.8	0.9
Other Services Industries	1.8	0.3	1.6	2.6	2.7	2.8
Total	**2.6**	**1.3**	**3.1**	**1.1**	**0.2**	**0.5**
	Annualised Quarter-on-Quarter Growth % (Seasonally-Adjusted)					
Goods Producing Industries	**1.0**	**-3.0**	**5.0**	**-3.1**	**-4.0**	**6.4**
Manufacturing	1.1	-3.4	7.0	-6.5	-4.2	7.6
Construction	0.2	5.3	-3.7	13.2	-5.5	-0.1
Services Producing Industries	**1.7**	**0.4**	**2.9**	**4.2**	**-1.4**	**0.4**
Wholesale & Retail Trade	-2.7	-5.0	1.7	3.2	-9.2	-1.7
Transportation & Storage	4.5	0.4	1.3	-1.3	6.5	-5.8
Accommodation & Food Services	2.9	3.9	2.8	-4.6	2.7	6.2
Information & Communications	6.5	7.2	5.4	2.0	1.3	3.0
Finance & Insurance	2.9	5.5	5.8	4.7	7.5	-0.5
Business Services	2.7	1.8	2.8	0.3	-1.6	3.2
Other Services Industries	2.7	-0.5	1.6	15.3	-5.5	3.4
Total	**0.8**	**-0.8**	**3.1**	**3.6**	**-2.7**	**2.1**

Source: MTI, SAC Capital

Singapore in 2019

Key Market Statistics

.

(in millions)	2019 1Q	2019 2Q	2019 3Q	2019 9M
GDP in Chained (2015) Dollars	**117,618**	**116,819**	**117,422**	**351,860**
Goods Producing Industries	**29,048**	**28,751**	**29,203**	**87,002**
Manufacturing	23,062	22,817	23,238	69,117
Construction	4,467	4,404	4,402	13,273
Utilities	1,501	1,472	1,481	4,454
Other Goods Industries	31	30	32	93
Services Producing Industries	**75,978**	**75,175**	**75,797**	**227,490**
Wholesale & Retail Trade	16,690	16,294	16,227	49,211
Transportation & Storage	8,092	8,221	8,099	24,413
Accommodation & Food Services	2,374	2,390	2,427	7,191
Information & Communications	4,709	4,724	4,759	14,192
Finance & Insurance	14,474	14,739	14,727	43,934
Business Services	17,120	17,049	17,184	51,353
Other Services Industries	12,606	12,428	12,532	37,566
Ownership Of Dwellings	**5,317**	**5,355**	**5,382**	**16,055**
Gross Value Added At Basic Prices	**110,175**	**109,713**	**110,187**	**330,076**
Add: Taxes On Products	**7,455**	**7,058**	**7,117**	**21,630**

	2018	2018 Q4	2019 Q1	2019 Q2	2019 Q3
Financial Indicators					
S$ Exchange Rate Against: (end-period)					
US Dollar	1.3648	1.3648	1.3559	1.3535	1.3813
Sterling Pound	1.7318	1.7318	1.7714	1.7152	1.6971
100 Japanese Yen	1.2359	1.2359	1.2245	1.2576	1.2796
Euro	1.5618	1.5618	1.5223	1.5383	1.5101
Interest Rates (end-period, % p.a.)					
Prime Lending Rate	5.33	5.33	5.25	5.25	5.25
3-Month Fixed Deposit Rate	0.17	0.17	0.20	0.20	0.20
1-year Treasury Bills Yield	2.04	2.04	2.05	1.97	1.84
Government Budget					
Operating Revenue (S$ mil)	77,117	15,288	18,808	20,145	20,561
Total Expenditure (S$ mil)	75,239	18,790	27,491	12,864	16,893
Operating Expenditure	56,246	14,518	19,751	9,882	13,071
Development Expenditure	18,993	4,272	7,740	2,982	3,822
Balance of Payments					
Current Account Balance (S$ mil)	87,772	17,970	23,005	22,743	22,017
Goods Balance	132,689	32,020	31,220	33,556	33,680
Services Balance	-2,220	-1,777	-500	-869	-201
Primary Income Balance	-33,192	-9,877	-5,992	-7,949	-9,544
Secondary Income Balance	-9,506	-2,396	-1,724	-1,996	-1,917
Capital & Fin Account Balance (S$ mil)	66,697	20,021	10,406	55,136	17,688
Direct Investment	-61,654	-10,399	-22,827	-27,724	-33,256
Portfolio Investment	32,224	25,141	4,301	79,234	20,285
Financial Derivatives	22,502	4,444	3,998	2,038	20,520
Other Investment	73,625	835	24,934	1,589	10,139
Overall Balance (S$ mil)	16,925	-3,910	12,907	-32,022	4,141

Source: MAS, MTI, singstat, SAC Capital

Singapore in 2019

Boom of secondary market equity fund raising activities

Singapore-listed real estate investment trusts ("**REITS**") saw a strong 2019 underpinned by a global hunt for yield as the Federal Open Market Committee cut its benchmark rate by a quarter point three times this year to a range of 1.5% to 1.75%. While the US Federal Reserve has signalled their intention of holding off for now, any weakness in the market would raise the odds of further cuts. The lower cost of funding coupled with investor's appetite for bigger deals have seen Singapore REITS spend a total of S$23 billion in asset acquisitions this year.

Going forward, we see the trend continuing for the continued growth of REITS in this space through acquiring new properties, mergers and the potential boost from MAS' review on the 45% leverage limit for Singapore REITS. There are obvious benefits with these trends. The first is that growing big will make it easier for them to be included in global benchmarks and portfolios. Inclusion into global benchmarks has the benefit of lowering the yield of REITS – price and yield are inversely related – which makes acquisition less costly for the REIT and more accretive. We can see the example of Manulife US REIT and Sasseur REIT which both announced this month on the 5 December that they will be included into the FTSE EPRA Nareit Global Developed Index with effect from 23 December 2019. Since the announcement, both Manulife US REIT and Sasseur REIT has seen an increase in their share price by about 4% and 3% respectively[1].

We also see the trend of mergers continuing as REITS see the benefit of increased scale in lowering cost of funding and cost efficiencies. Three (3) mergers – OUE Commercial REIT and OUE Hospitality Trust, Ascott Residence Trust and Ascendas Hospitality Trust and, Frasers Logistics & Industrial Trust and Frasers Commercial Trust - were announced this year by REITS, and the primary motivation given for such a move is (1) enlarge scale, (2) increase free float to attract a wider investor base and (3) to aim for index inclusion (benefits elaborated above).

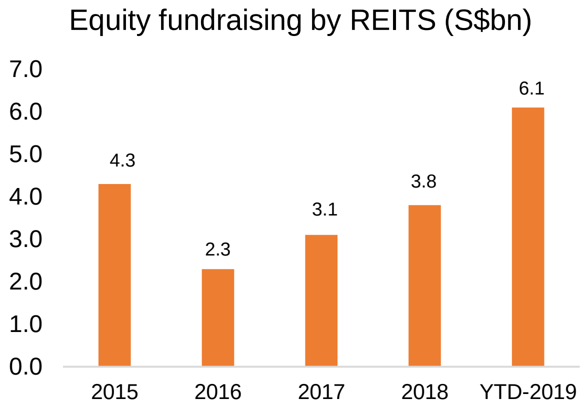
1. Based on closing price on the 11 December 2019. Share price return excludes run-up in share price prior to index inclusion.

Notable M&A deals this year

In the largest deal to date this year, CapitaLand spent S$11 billion to purchase Temasek Holdings' subsidiary Ascendas-Singbridge to create Asia's largest diversified real estate group. And in April, OUE Commercial REIT agreed to acquire OUE Hospitality Trust which boosted their size to be one of Singapore's 10 largest REITS. In July, Ascott Residence Trust and Ascendas Hospitality Trust also agreed to create the largest hospitality trust in the Asia-Pacific region, with over US$123 billion of assets under management. This month, Frasers Logistics & Industrial Trust announced their intention to acquire Frasers Commercial Trust in a S$1.58 billion merger.

Record fundraising for 2019

Singapore REITS have raised a record S$6.1 billion in equity fund raisings this year and most of these issues were oversubscribed and priced near the top end of the range despite a more than 26% year-to-date return in REITS.



Source: Bloomberg, SAC Capital

The biggest equity fund-raising for this year belongs to Ascendas Reit's S$1.3 billion rights issue, for the purchase of 30 business parks in the United States and Singapore for about S$1.66 billion from its controlling shareholder, CapitaLand.

Singapore REITS have taken advantage of both the lower cost of funding and their compressed yield and chosen to take advantage of equity funding despite the ample debt headroom of the REITS. The result is that the majority of REITS actually managed to improve their overall gearing and increase their debt headroom, giving them even more flexibility for acquisitions.

Singapore in 2019

S-REITS to continue growing in 2020

As we have highlighted earlier, the huge equity fundraising exercise conducted by Singapore REITS this year for acquisitions have seen average dividend per unit accretion ranged from 0.6% to 12.4% and also improved their financial position. We think that this will spur REITS to continue acquisition activities as they take advantage of the favourable situation surrounding the sector now. Recent private placement exercises in the third quarter of this year has seen strong take-up from institutional investors, with demand at about 4 – 13x of the total placement size. We also think that there will be further consolidation amongst REITS as they seek to attain scale to derive cost and revenue synergies, and eventually be included into benchmarks. In 2019 alone, we have seen three (3) consolidations in the REITS space, and we think that the sector could see additional consolidation in the industrial space sector especially given the weak business climate in the industrial space sector now.

REIT IPO pipeline remain robust in 2020

The Business Times reported earlier in the year that a US grocery-anchored necessity-based retail cum self storage REIT is looking to list on the Singapore Exchange (SGX) this year. The report pointed out that the properties will mostly be located in the Eastern seaboard, from Florida to New Jersey. Besides self-storage space, the REIT will also own malls anchored by supermarkets and grocers, complemented by smaller 'inline' tenants. The Business Times understands that they are looking to raise up to US$400 million from the Singapore market. We also noted that in an recent interview with the Business Times, Stefanie Yuen Thio, joint managing partner at TSMP Law pointed out that there are a few REITS in the pipeline, which are likely to launch in the first half of next year.

Hong Kong's Far East Consortium International, the Hong Kong developer, is considering a real estate investment trust listing in Singapore that could raise as much as $500 million, according to a news report.

Outlook remains bright for REITS

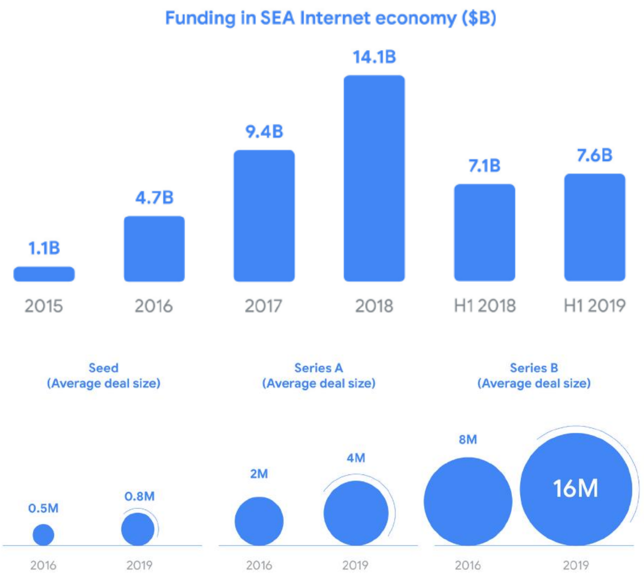
In the most recent US Federal Reserve meeting, US Federal Reserve Chairman Jerome Powell held interest rates steady and signaled their intention to not raise rates for the whole of 2020 given tepid inflation conditions.

We think that this environment of persistently low interest rates will see investor's continued interest in this space – though we see the need to be selective in this space given the strong run-up in 2019 -, which could compress the yield of REITS further which will give them ammunition for further yield accretive acquisitions. Moving forward, the ongoing uncertainty from trade tensions between the US and China along with uncertainty from the upcoming US Presidential elections should see investor's turn to a flight to quality, which will benefit Singapore REITS.

Emerging Trends

SEA Start-up Economy

Amid the aforementioned global tensions, data from Crunchbase revealed that global venture funding was 17.5% lower in 2Q2019 and 3.6% lower in 3Q2019 as compared to their respective quarters in 2018.



Source: Google & Temasek / Bain, e-Conomy SEA 2019

Zooming in to Southeast Asia ("**SEA**"), shows a contrary, rising trend. According to Google, Temasek and Bain & Company's e-Conomy SEA 2019 report, SEA's internet firms raised US$7.6 billion in 1H2019, 7% more than US$7.1 billion in 1H2018. The average deal size has also nearly doubled, indicating increasing investor confidence and a more mature start-up economy in the region.

About two-thirds of funds in SEA since 2016 were invested in e-commerce or ride hailing businesses, while new sectors such as food delivery and financial services are on the rise. Investors' bullish approach to the region is well justified, with rapidly developing nations resulting in fresh internet access, 90% of which is achieved via mobile phones, being put in the hands of hundreds of millions more people. In 2019, SEA's internet economy hit the US$100 billion mark, up from US$32 billion in 2015, and was projected to reach US$300 billion by 2025. The report also noted a trend of venture capitalists doubling down on their successful earlier investments in later rounds, while private equity funds have been more willing to explore earlier rounds.

This potentially bridges a funding gap that currently exists at the Series C and D rounds, potentially pushing more SEA start-ups towards attaining "Unicorn" status, described as a valuation over US$1 billion. One such example is Trax, a provider of image recognition and analytics technology for the retail industry, which secured a US$100 million Series D round from HOPU Investments in July 2019. This investment raised the company's valuation over the US$1 billion mark to about US$1.2 – 1.3 billion, making it Singapore's second Unicorn after ride-hailing service Grab. Other local examples of "aspiring unicorns" include Carousell and Ninja Van. Due to Singapore's ease of access to the rest of Southeast Asia, a number of new venture capital funds were launched here in 2019, such as Jungle Ventures, Wavemaker, EV Growth, Vertex Ventures, and Temasek / Kuehne + Nagel's joint-venture Reefknot.

Singapore is a highly attractive place for startups and talent, as the developed city state serves as an ideal testing ground prior to expansion into neighbouring countries. The Global Talent Competitive Index 2019, published by INSEAD together with the Adecco Group and Tata Communications, ranks Singapore at 2nd globally, just behind Switzerland. Here, startups originate from diverse backgrounds, such as those locally founded by researchers or graduates from local universities and research institutions, to global startups seeking opportunities here. According to a media release by Enterprise Singapore, January to September 2019 experienced 437 deals totaling S$13.4 billion invested in startups, about 36% higher than the same period last year. In line with the broader trend in Southeast Asia, about 93.2% of the funds went to digital startups over 278 deals. Notably, investments in deep tech, namely advanced manufacturing, urban solutions and sustainability, and healthcare and biomedical science, are picking up momentum despite only making up less than 4% of the total capital invested.

In the coming years, we are likely to see continued growth for startups and funding alike, as Singapore shows no signs of dropping its status as a gateway to opportunities in the region's developing nations and their populations' rising affluence.

Emerging Trends

Plant-Based Meat

Source: Impossible Foods, Burger King

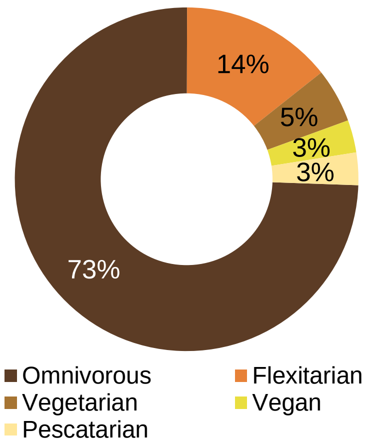
Vegetarian and vegan alternative meats are by no means a new product, but 2019 saw substantial growth for this niche industry. While traditional mock meats have failed to appeal to meat-lovers, companies such as Beyond Meat and Impossible Foods, both US-based, are in the business of developing plant-based meats that mimic real meat in every way possible – taste, texture and even the way they are cooked. This aims to tap into the broader meat industry market which is valued at about US$1.4 trillion globally.

Earlier this year, both companies began offering their products through a growing list of restaurants, beginning with US fast food chains such as Carl's Jr and Burger King. On 2 May 2019, Beyond Meat was successfully listed on the NASDAQ with an IPO price of US$25 per share and peaked at US$239.71 per share in July. Despite the stellar start, the current price as of [2 December 2019] is a more modest US$[82.96] per share, which translates to a market capitalisation of about US$5.1 billion. Beyond Meat's rival Impossible Foods has on the other hand decided to stick to private fundraising for now.

The spike in popularity of plant-based meats is partly attributable to the rise of the "flexitarian" diet, which encourages a combination of vegetarian food with animal-based products consumed in moderation.

The touted benefits of such a diet are echoed in Beyond Meat's IPO prospectus, which claims that its products "help to address concerns related to human health, climate change, resource conservation and animal welfare". Experts have however argued that the perceived health benefits of plant-based meats are misconceptions, though the positive environmental and animal welfare effects remain as big selling points. Data from Quantis showed that Impossible Foods' Impossible Burger has an 89% smaller carbon footprint, uses 87% less water, 96% less land and 92% lower water contamination as compared to an equivalent beef burger. The proliferation of social media has also boosted publicity and awareness of plant-based meats via the use of viral marketing.

Diet Types of the Global Population



Source: Ipsos, SAC Capital

This trend is also catching on outside the US. For example, the African Swine Fever epidemic and resulting escalated pork prices have led to growing interest in plant-based meats in China. Existing long-time players such as Whole Perfect Food are joined by numerous start-ups such as Zhenmeat and Starfield, whose products aim to mimic the likeness of local cuisines to differentiate from their Western counterparts.

Here in Singapore, we have yet to see the commercialisation of a home-grown plant-based meat company, though restaurants including Privé at Wheelock Place, mezza9 at Grand Hyatt and many others are already including Beyond Meat and Impossible Foods' products in their menus.

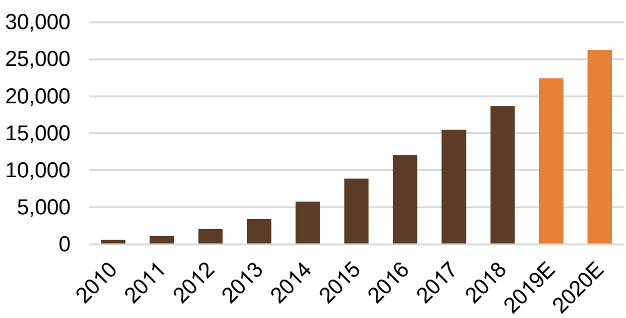
Beyond Meat recently reported its first ever profitable quarter to prove the commercial viability of plant-based meats, and the industry's rapid growth shows no signs of slowing in 2020 and beyond.

Emerging Trends

Coworking

Coworking describes an arrangement between multiple businesses to share an office space, thereby saving costs through having common equipment and utilities such as printing, food, entertainment, reception and more. Companies that lease out coworking spaces typically provide for the full suite of office supplies and utilities as part of their services, while offering highly customisable options in terms of lease periods and number of persons. This flexibility, as well as not needing to commit to renting and managing a full office, makes coworking highly attractive to freelance workers, entrepreneurs, and even large firms venturing into a new region or business. In addition, coworking spaces are designed to foster a community and culture of collaboration and idea-sharing among its members.

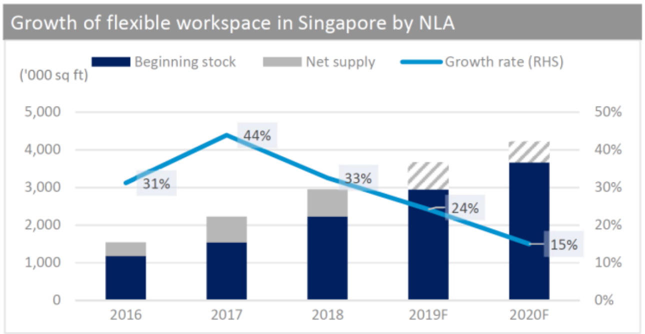
Number of Coworking Spaces Worldwide



Source: Statista, SAC Capital

The first modern coworking space opened as early as 2005, and this innovative concept has grown exponentially over the years. In 2019, there were an estimated 22,400 coworking spaces globally according to Statista. Today, there are numerous coworking space providers, such as WeWork from the US and Ucommune from China just to give a couple of names. Established serviced office company IWG also expanded its service offerings into coworking and acquired Spaces, an Amsterdam-based brand, in 2015.

In 2019, coworking finally hit centre-stage in global news with the attempted IPO of WeWork. The company's revenue of US$1.8 billion and net loss of US$1.6 billion for the year ended 31 December 2018, combined with multiple red flags of mismanagement, resulted in its valuation rapidly dwindling during the IPO's book-building process, from the initial valuation of US$47 billion. Ultimately, the IPO was withdrawn and its CEO Adam Neumann was removed. Largest outside investor Softbank took control of WeWork through a US$9.5 billion deal, as the absence of IPO funds raised questions about the company's solvency.



Source: Colliers International

In Singapore, coworking spaces have also seen tremendous net leasable area ("**NLA**") growth in recent years, primarily concentrated in the CBD Grade A office buildings. Some of 2019's expansion highlights include the opening of Spaces' flagship location at One Raffles Place, and WeWork's plan to eventually take over 21 Collyer Quay from HSBC. While it remains to be seen if WeWork is still capable of expanding aggressively to maintain market share leadership in Singapore, its many competitors are probably ready to pick up the slack if required, as Singapore's developing technology startup ecosystem continues to grow.

Market Share of Top Flexible Workspace Operators in Singapore by NLA

Flexible Workspace Operator	Estimated Portfolio Size (sq ft)	Market Share (%)
WeWork	850,000	22.0
IWG	640,000	16.6
JustGroup	498,000	12.8
The Work Project	192,000	4.9
The Executive Centre	141,000	3.7
Servcorp	102,000	2.6
The Great Room	91,000	2.3
Total	**Top 7 operators**	**65.0**

Source: Colliers International

Emerging Trends

Sustainable Financing

The global push towards heightened sustainability has given rise to numerous voluntary and mandatory practices ranging from stricter emissions quotas to attractive grants and incentives, as well as mandatory sustainability reporting for listed companies. More recently, the loan market has also adapted accordingly, resulting in the emergence of green loans and sustainability linked loans ("**SLLs**"). Borrowers of such loans are encouraged and incentivised to adopt sustainable practices, as meeting certain green criteria will result in lower borrowing costs.

In March 2018 the Loan Markets Association, Asia Pacific Loan Market Association and Loan Syndications and Trading Association jointly released the Green Loan Principles ("**GLP**"), which establishes 4 key criteria – (i) use of proceeds; (ii) process for project evaluation and selection; (iii) management of proceeds; and (iv) reporting. These criteria provide guidance for green loans, which essentially require the proceeds to be utilised for green purposes.

Subsequently in March 2019, they also published the Sustainability Linked Loan Principles, which are grounded in environmental, social and governance ("**ESG**") criteria, as guidance for SLLs. Unlike green loans, SLLs are typically not conditional on the use of proceeds, instead emphasising on the ESG performance of the borrower as a whole.

In Singapore, such loans have been predominantly raised by large property groups. Some of Singapore's first such loans are the US$500 million SLL raised by Olam International, S$300 million SLL raised by CapitaLand, and S$1.2 billion green loan raised by Frasers Property as refinancing for Frasers Tower. All three loans were from the latter half of 2018, and the pace of this trend picked up over the course of 2019 as other property investors, developers and REITs followed suit.

Notably, in May 2019, DBS awarded a 10-year SLL of S$27 million to local egg producer Chew's Agriculture, with lower interest rates tied to meeting Humane Farm Animal Care standards. This marked Singapore's first ESG-linked loan raised by a SME, which signals the opening of a sustainable financing market to a much wider range of potential clients.

Notable Green Loans and SLLs in Singapore (2019)

Borrower	Amount (millions)	Type
Frasers Property	A$600 (S$576)	Green loan
Sunseap Group	S$50	Green loan
City Developments Limited	S$500	Green loan
United Engineers	S$333	Green loan
Metro Holdings / Evia Real Estate Management	S$296.3	Green loan
Brookfield Properties	A$880 (S$830)	Green loan
Keppel REIT	S$505	Green loan
Sunseap Group	S$43	Green loan
Keppel Land	RMB850 (S$170)	Green loan
Frasers Property	A$500 (S$477)	Green loan
Sun Venture	S$455	Green loan
Soilbuild Group Holdings	S$248	Green loan
CapitaLand Mall Trust	S$200	Green loan
Chew's Agriculture	S$27	SLL
CapitaLand	S$300	SLL
City Developments Limited	S$250	SLL
Olam International	US$525 (S$724)	SLL
Mapletree Logistics Trust	S$200	SLL

Source: The Business Times, SGXNet Announcements, SAC Capital

The wave of sustainable financing is at the advent of expanding to beyond the bounds of loan markets as well. In November 2019, the Monetary Authority of Singapore ("**MAS**") unveiled the Green Investments Programme ("**GIP**"), a US$2 billion programme that will be channeled towards Singapore's green-focused funds with asset managers "who have demonstrated a firm commitment to deepening their green investment capabilities".

With Singapore ever striving to improve and maintain its status as a leading green city, sustainable financing is most certainly here to stay, and may even grow to become mainstream in 2020 and beyond.

Singapore Market Outlook 2020

Despite external trade uncertainties for 2020, global growth is still expected to pick up modestly for 2020. We think caution is warranted however, as growth in several of Singapore's key final demand markets such as the US and China is expected to ease. Taking into account the global and domestic economic environment, the Singapore economy is expected to grow by "0.5% to 2.5%" in 2020.

Despite the market uncertainties however, we think investor's should position into defensive sectors, particularly in industrials where we see conditions improving. We are underweight the property sector.

Our sector and stock preferences are driven by the preference for resilient cash flows, low cyclicality and attractive bottom-up valuations.

Our top picks for 2019 are Interra Resources (BUY, TP:S$0.089, Upside:+ 71%), Hyphens Pharma (BUY, TP: S$0.285, Upside: +36%), ISOTeam (BUY, TP: S$0.325, Upside: +32.7%), and Megachem (BUY, TP: S$0.50, Upside: +56%).

Conviction List

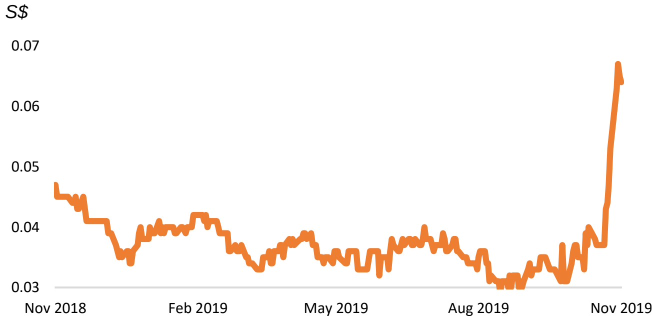
Interra Resources Limited

Date: 12 December 2019

BUY
(Maintained)

Target price: S$0.089
(+71%)

ITRR SP
Price: S$0.052 **(as at 15 November 2019)**



Share price	1M	3M	6M	1Y
Interra Resources	-13.3%	79%	79%	30%
Straits Times Index	-3.1%	0.2%	-0.8%	2.9%

Market capitalisation	S$30.5 million
Current price	S$0.052
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
Terence Chua +65 6232 3236
tchua@saccapital.com.sg

Positive drilling results from Kuala Pambuang Well

Interra Resources announced the drilling and testing results of the Company's first well in the Kuala Pambuang Block ("**KP**") onshore southern Central Kalimantan, Indonesia.

Positive drilling and testing results. Interra has a 67.5% working interest in the Block through PT Mentari Pambuang International, the operator of the 1,631km2 Block as well as the drilling of the KP-1 exploration well. KP-1 has reached total depth of 3,771 feet and Electric Wireline Logging was accomplished. Live oil shows over several zones were recorded while drilling in the primary reservoir targets by borehole cuttings analysis. EWL analyses have confirmed and are consistent with the drilling shows. Subsequent to these, Drill Stem Testing by Swabbing was completed in the open hole and samples of oil have been collected. KP-1 will undergo completion by installing casing and performing testing by casing perforation over the potential reservoirs. Further analysis of the data, including EWL, lithology and crude analysis, is ongoing and further announcements regarding this is expected.

Group reported net operating cash flow of US$1.1 million, net cash position improved to US$6.5 million. Despite recording slightly lower operating cash flows of $1.1 million vs. $1.3 million last year, the Group's net cash position continued to improve, increasing from US$6.3 million last quarter to US$6.5 million in the current quarter.

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 0.4x of its book value, albeit sitting on net cash of US$6.5m as at September 2019. We maintain BUY with a target price of S$0.089, representing a 71% 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)	FY2015	FY2016	FY2017	FY2018	FY2019E
Revenue	23,452	15,173	11,245	15,900	19,302
% Growth	(58.0%)	(35.3%)	(25.9%)	32.4%	29.7%
Gross profit	(10,621)	5,563	6,203	6,897	8,897
Gross profit margin	(45.3%)	36.7%	55.2%	46.3%	46.0%
Profit/(loss) before tax	(52,229)	(7,787)	1,212	263	1,518
Profit/(loss) before tax margin	NA	NA	10.8%	1.8%	7.9%
Profit/(loss) attributable to owners (3)	(47,417)	(8,041)	1,320	874	1,518
EPS/(LPS) (US cents)	(9.8)	(1.6)	0.3	0.2	0.2
P/E (x)	NA	NA	21.8	37.7	24.4
P/B (x)	0.7	1.0	0.9	0.9	0.9
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

Strengthened cash position

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.

Oil reserves (mmstb)(1) As at 31 December 2018	1P (net)	2P (net)	3P (net)
Myanmar	1.22	1.78	2.36
Indonesia	0	0.35	0.47

Source: Company data, SAC Advisors

(1) Million stock tank barrels

Interra Resources reported third quarter FY19 results which saw revenue for the quarter come in at US$3.63 million from US$4.3 million last year. The decrease was due mainly to lower weighted average transacted oil prices of US$60.33 per barrel as compared to the previous year of US$72.43 per barrel although sales of shareable oil increased by 2% to 76,280 barrels in Q3 2019. The Group however, turned around from the loss of US$2.13 million last quarter with a profit of US$0.4 million this quarter.

We see the lower revenue of US$3.63 million as largely expected given the much reduced price of crude oil prices this year as compared to last year, and are encouraged that shareable oil production is seeing an uptick. In the absence of new drillings in the third quarter of 2019, we also saw a slight dip in the quarter-on-quarter shareable oil production in Myanmar by 2% to 76,280 barrels in Q3 2019 from 77,522 barrels in Q2 2019, going forward, we see these maintaining as management continue to place an emphasis on workover and reactivation of existing wells in this quarter as well as contribution from the water flooding project.

Management to announce preliminary results at Kuala Pambuang PSC next month. The Company gave further updates on their drilling activity at Kuala Pambuang PSC in their recent 3Q2019 results announcement. The Group had previously announced that the local authority has approved the well location and related expenditure, and preparations are underway towards spudding the exploration well later in the year. The Group has announced that preliminary results of the drilling will be known next month in December 2019. That said, no significant contribution is expected from this field in the near term. The cost of drilling of the exploration well is expected to be funded internally, though the Group will also explore funding options for this.

Group reported net operating cash flow of US$1.1 million, net cash position improved to US$6.5 million. Despite recording slightly lower operating cash flows of $1.1 million vs. $1.3 million last year, the Group's net cash position continued to improve, increasing from US$6.3 million last quarter to US$6.5 million in the current quarter.

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 0.4x of its book value, albeit sitting on net cash of US$6.5m as at September 2019. We maintain BUY with a target price of S$0.089, representing a 71% 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.

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 Cooperatio n 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	FY18	FY19E
Revenue (1)	**23,452**	**15,173**	**11,245**	**14,885**	**19,302**
Less: Cost of sales	(34,073)	(9,610)	(5,042)	(7,988)	(10,423)
Gross Profit	(10,621)	5,563	6,203	6,897	8,879
Other income	324	63	594	713	713
Administrative expenses	(41,247)	(6,574)	(5,269)	(6,619)	(7,347)
Finance expenses	(59)	(82)	(130)	(102)	(102)
Share of losses of associated companies	(626)	(6,755)	(186)	(625)	(625)
Results from operating activities	(52,229)	(7,787)	1,212	263	1,518
Tax expense	(555)	(1,031)	(813)	516	(152)
Profit/(Loss) from discontinued operations for FY	(655)	(39)	(46)	(54)	0
Total profit/(loss)	**(53,439)**	**(8,857)**	**353**	779	1,366
Profit/(Loss) attributable to owners of company	**(47,719)**	**(8,062)**	**1,298**	**848**	**N/A**
Earnings/(Loss) per share:					
-Basic (US cents)	**(9.85)**	**(1.59)**	**0.26**	0.15	0.23
-Diluted (US cents)	**(9.85)**	**(1.59)**	**0.26**	0.15	0.23

(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	21.8	37.7	24.4
P/B	0.7	1.0	0.9	0.9	0.9
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

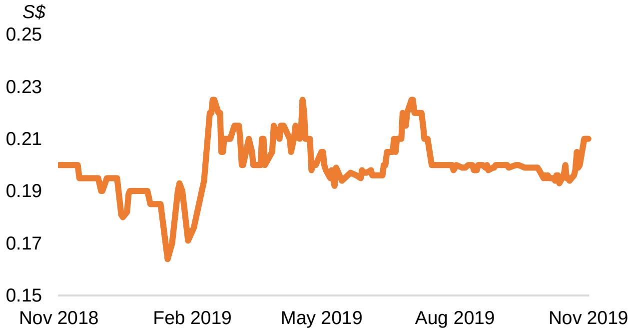
Hyphens Pharma International Limited

Date: 22 November 2019

BUY
(Maintained)

Target price: S$0.285 (+36%)

HYP SP
Price: S$0.210 (as at 21 November 2019)



Share price	1M	3M	6M	1Y
Hyphens Pharma	7.7%	5.5%	2.4%	5.0%
Catalist Index	4.2%	-1.6%	-5.5%	-17.2%

Market capitalisation	S$63.1 million
Current price	S$0.210
Shares outstanding	300.4 million
Free Float	20.1%
Substantial shareholders	Inomed Holding Pte Ltd 65.3% Tan Chwee Choon 14.6%
Recommendation of other brokers	1 Buy

Source: Annual Report, SGX StockFacts, Bloomberg, SAC Capital

Analyst
Chow Zheng Jie +65 6232 3239
chowzj@saccapital.com.sg

Analyst
Terence Chua +65 6232 3236
tchua@saccapital.com.sg

Nicholas Neo +65 6232 3224
nneo@saccapital.com.sg

3Q2019 net profit surged 51.5%

Hyphens Pharma International Limited ("**Hyphens Pharma**", "**Company**", or the "'**Group**") recorded a 51.5% year on year increase in net profit from S$1.2 million in 3Q2018 to S$1.8 million in 3Q2019, on the back of 4.2% revenue growth from S$29.4 million to S$30.7 million. This was driven by revenue improvement across all three business segments.

Specialty pharma principals on track to stabilisation. Sales from the specialty pharma principals segment rose 6.0% to S$16.9 million in 3Q2019 compared to S$15.9 million 3Q2018, as a result of higher demand in most of the geographical regions that the Group operates in. This follows through from the 13.0% quarter-on-quarter increase in sales from 1Q2019 to 2Q2019.

Efforts to grow proprietary brands are paying off. The proprietary brands segment saw an 8.3% increase in revenue driven by higher sales of Ceradan products. This came on the back of over-the-counter ("**OTC**") availability of Ceredan and the launch of Ceradan Advanced in July. Earlier in the year the Group organised media launch events and roadshows at pharmacies to promote the Ceradan brand, which are starting to bear fruit.

Gross margin improved by 3.1 percentage points, rising to 35.4% in 3Q2019. This was due to a larger proportion of revenue generated by the higher margin specialty pharma principals and proprietary brands segments. The lower margin medical hypermart and digital segment saw a slight improvement in revenue, rising 0.2% year on year in 3Q2019. We believe margins could improve further as the higher margin segments continue to expand.

Maintain BUY. In view of the continued improvement of the Group's core specialty pharma business, strong showing for proprietary brands and stable performance in its wholesale medical supplies segment, we maintain our target price of S$0.285. Our DCF-derived target price translates into FY19E P/E of 14.2x.

Key risks: (i) Regulatory risk and (ii) dependence on brand principals.

Key Historical Financials

Year ended 31 Dec (S$'000)	FY2017A	FY2018A	FY2019E	FY2020E	FY2021E
Revenue (S$)	112,652	120,930	121,902	132,183	142,797
% Growth	11.6%	7.3%	0.8%	8.4%	8.0%
Gross profit (S$)	36,968	40,805	40,988	45,470	49,999
Gross profit margin	32.8%	33.7%	33.6%	34.4%	35.0%
Profit/(loss) before tax (S$)	7,160	7,000	7,330	7,950	9,649
Profit/(loss) before tax margin	6.4%	5.8%	6.0%	6.0%	6.8%
Profit/(loss) attributable to owners	6,088	5,410	6,018	6,527	7,922
EPS/(LPS) (Singapore cents)	2.54	1.95	2.00	2.17	2.64
P/E (x)	8.3	10.8	10.5	9.7	8.0
P/B (x)	3.4	1.6	1.5	1.4	1.2
Net Debt/Equity	Net cash	Net cash	Net cash	Net cash	Net cash

Source: Annual Report, SAC Capital *FY2018 and FY2017 figures may not be comparable with FY2019 due to preparation under SFRS (I)*

3Q2019 net profit surged 51.5%

Revenue Contribution (S$ million)	3Q19	3Q18
Specialty pharma principals	16.9	15.9
Proprietary brands	3.6	3.3
Medical hypermart and digital	10.2	10.2
Total	30.7	29.4

Source: Company data, SAC Capital
Figures are rounded to the nearest S$100,000

Business Overview:

Hyphens Pharma International Limited is primarily engaged in the marketing, distribution and sales of specialty pharmaceutical products in countries in the ASEAN region. The Group also develops and sells a range of proprietary dermatological and health supplement products, which fall under its Proprietary Brands business segment. The Group's wholly owned subsidiary Pan-Malayan is a wholesale provider of pharmaceutical and medical supplies in Singapore.

Hyphens Pharma International Limited ("**Hyphens Pharma**", "**Company**", or the "'**Group**") recorded a 51.5% year on year increase in net profit from S$1.2 million in 3Q2018 to S$1.8 million in 3Q2019, on the back of 4.2% revenue growth from S$29.4 million to S$30.7 million. This was driven by revenue improvement across all three business segments.

Specialty pharma principals on track to stabilisation. Sales from the specialty pharma principals segment rose 6.0% to S$16.9 million in 3Q2019 compared to S$15.9 million 3Q2018, as a result of higher demand in most of the geographical regions that the Group operates in. On a quarterly basis, the improvement was 8.1% over 2Q2019 revenue. This follows through from the 13.0% quarter-on-quarter increase in sales from 1Q2019 to 2Q2019. In the nine months ended 30 September 2019 ("**9M2019**"), segment revenue was 10.5% lower than 9M2018 when there was higher demand ahead of product licensing renewals in Vietnam. However this was an improvement from 1H2019 when sales were 17.8% lower than 1H2018. We expect the shortfall to narrow further as revenue stabilises moving into 4Q2019.

Efforts to grow proprietary brands are paying off. The proprietary brands segment saw an 8.3% year on year increase in revenue from S$3.3 million to S$3.6 million driven by higher sales of Ceradan products. This came on the back of OTC availability of Ceredan and the launch of Ceradan Advanced in July. Earlier in the year the Group organised media launch events and roadshows at pharmacies to promote the Ceradan brand, which are starting to bear fruit.

Hyphens Pharma launched three proprietary products, *Ceradan Advanced*, *TDF Fairence* and *TDF Metabiotic Facial Wash* in the current year, and has several products in the R&D pipeline undergoing development or pending registration. We expect proprietary products to grow its revenue share as more products are added to the family.

Gross margin improved by 3.1 percentage points, rising to 35.4% in 3Q2019 from 32.3% in 3Q2018. This was due to a larger proportion of revenue generated by the higher margin specialty pharma principals and proprietary brands segments. The lower margin medical hypermart and digital segment saw a slight improvement in revenue, rising 0.2% year on year in 3Q2019. We believe overall gross margin should improve further as the higher margin segments continue to grow.

The Group faced higher distribution costs of S$6.2 million (3Q2018: S$5.4 million) mainly due to higher advertising and promotional expenses incurred in relation to the OTC rollout of Ceradan, as well as the strengthening of human capital to support the Group's long-term growth strategy. Administrative expenses were 2.9% lower at S$2.4 million in 3Q2019, primarily owing to lower R&D expenses. Other income and gains increased to S$0.2 million from foreign exchange gains. Accordingly, profit before tax increased by 54.2% from S$1.4 million to S$2.2 million. Income tax was S$0.2 million higher than 3Q2018, in line with higher profit before tax for the period. As a result, the Group achieved a net profit of S$1.8 million, a 51.5% increase from 3Q2018 net profit of S$1.2 million.

3Q2019 net profit surged 51.5%

Maintain BUY. In view of the continued improvement of the Group's core specialty pharma business, strong showing for proprietary brands and stable performance in its wholesale medical supplies segment, we maintain our target price of S$0.285. Our DCF-derived target price translates into FY19E P/E of 14.2x.

Income Statement

(S$'000)	FY 2017A	FY 2018A	FY 2019E	FY 2020E	FY 2021E
	Fiscal Year Ended 31 Dec				
Revenue	**112,652**	**120,930**	**121,902**	**132,183**	**142,797**
Cost of sales	(75,684)	(80,125)	(80,914)	(86,712)	(92,798)
Gross profit	**36,968**	**40,805**	**40,988**	**45,470**	**49,999**
Interest Income	9	54	54	54	54
Other income and gains	259	225	220	220	220
Distribution costs	(20,402)	(21,736)	(23,762)	(25,765)	(27,835)
Administrative expenses	(8,472)	(10,422)	(9,369)	(11,226)	(11,988)
Finance costs	(206)	(129)	-	-	-
Other losses	(996)	(1,797)	(802)	(802)	(802)
Profit before tax from continuing operations	**7,160**	**7,000**	**7,330**	**7,950**	**9,649**
Income tax expense	(1,072)	(1,590)	(1,312)	(1,423)	(1,727)
Profit, net of tax	**6,088**	**5,410**	**6,018**	**6,527**	**7,922**
Earnings per share (cents) Basic and Diluted	2.54	1.95	2.00	2.17	2.64

Cash Flow Statement

(S$'000)	FY 2017A	FY 2018A	FY 2019E	FY 2020E	FY 2021E
	Fiscal Year Ended 31 Dec				
Profit before tax	7,160	7,000	7,330	7,950	9,649
Amortisation of intangible assets	406	392	393	393	393
Depreciation of plant and equipment	341	439	690	787	884
Changes in working capital	(3,250)	(1,256)	597	(1,045)	(1,058)
Others	(39)	961	(1,377)	(1,461)	(1,765)
Net cash flows from operating activities	**4,618**	**7,536**	**7,633**	**6,624**	**8,103**
Purchase of plant and equipment	(130)	(3,334)	(1,083)	(1,083)	(1,083)
Purchase of intangible assets	(41)	(44)	(64)	(64)	(64)
Interest received	9	54	54	54	54
Net cash flows used in investing activities	**(162)**	**(3,324)**	**(1,093)**	**(1,093)**	**(1,093)**
Gross proceeds from issuance of new shares pursuant to incorporation and IPO		15,605			
Dividends paid to equity owners	(1,000)	(7,000)	(1,650)	(1,805)	(1,958)
Repayment of borrowings	(4,092)	(4,383)	(3,000)	-	-
Proceeds from borrowings	822	3,425	-	-	-
Others	(516)	(1,799)	86	0	0
Net cash flows from (used in) financing activities	**(4,786)**	**5,848**	**(4,564)**	**(1,805)**	**(1,958)**

Balance Sheet

(S$'000)	FY 2017A	FY 2018A	FY 2019E	FY 2020E	FY 2021E
	Fiscal Year Ended 31 Dec				
Plant and equipment	630	3,464	3,841	4,121	4,303
Intangible assets	9,105	7,764	7,435	7,105	6,776
Deferred tax assets	315	210	210	210	210
Total non-current assets	**10,050**	**11,438**	**11,486**	**11,436**	**11,289**
Inventories	13,178	10,863	12,139	13,009	13,922
Trade and other receivables	23,775	29,833	27,019	29,298	31,651
Prepayments	245	492	215	215	215
Cash and cash equivalents	12,293	22,353	24,329	28,056	33,108
Total current assets	**49,491**	**63,541**	**63,703**	**70,578**	**78,896**
Total assets	**59,541**	**74,979**	**75,188**	**82,014**	**90,185**
Share capital	1,521	32,555	32,641	32,641	32,641
Retained earnings	17,191	21,587	24,149	28,719	34,264
Other reserves	118	(14,980)	(15,007)	(15,007)	(15,007)
Total equity	**18,830**	**39,162**	**41,783**	**46,353**	**51,898**
Deferred tax liabilities	560	502	502	502	502
Other financial liabilities, non-current	1,588	-	-	-	-
Total non-current liabilities	**2,148**	**502**	**502**	**502**	**502**
Income tax payable	1,092	1,480	1,480	1,480	1,480
Trade and other payables	35,101	30,835	31,423	33,679	36,305
Other financial liabilities, current	2,370	3,000	-	-	-
Total current liabilities	**38,563**	**35,315**	**32,903**	**35,159**	**37,785**
Total equity and liabilities	**59,541**	**74,979**	**75,188**	**82,014**	**90,185**

Ratios

	FY 2017A	FY 2018A	FY 2019E	FY 2020E	FY 2021E
	Fiscal Year Ended 31 Dec				
Profitability (%)					
Gross profit/(loss) margin	32.8%	33.7%	33.6%	34.4%	35.0%
Profit/(loss) before tax margin	6.4%	5.8%	6.0%	6.0%	6.8%
Liquidity (x)					
Current ratio	1.3	1.8	1.9	2.0	2.1
Quick ratio	0.9	1.5	1.6	1.6	1.7
Interest coverage ratio	35.8	55.3	n.m.	n.m.	n.m.
Net Debt to Equity	Net cash	Net cash	Net cash	Net cash	Net cash
Valuation (x)					
P/S	0.5	0.5	0.5	0.4	0.4
P/E	7.7	10.0	9.7	9.0	7.4
Core P/E at target price	11.2	14.6	14.2	13.1	10.8
P/B	3.1	1.5	1.4	1.3	1.1
P/NTA	6.0	1.9	1.7	1.5	1.3
Cash Conversion Cycle					
Trade receivable days	71	81	81	81	81
Inventory days	54	55	55	55	55
Trade payable days	123	132	132	132	132
CCC days	2	3	3	3	3

n.m. denotes not meaningful

FY2018 and FY2017 figures may not be comparable with FY2019 due to preparation under SFRS (I)

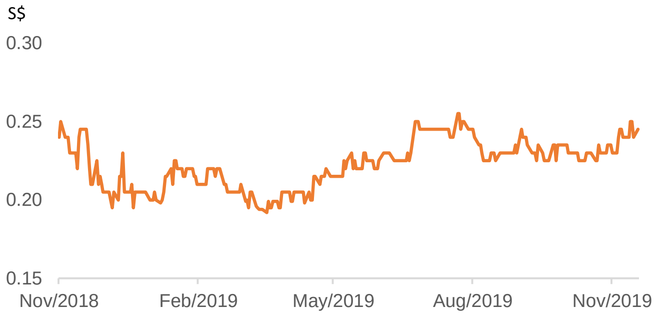
ISOTeam Ltd.

Date: 19 November 2019

BUY **(Maintained)**

Target Price: S$0.325 (+32.7%)

ISOTeam (5WF.SI)
Price: S$0.245 (as at 18 November 2019)



Share price	1M	3M	6M	1Y
ISOTeam Ltd.	6.5%	6.5%	11.4%	0.0%
Catalist Index	7.3%	1.3%	-3.3%	-16.0%

Market capitalisation	S$69.8 million	
Current price	S$0.245	
Shares outstanding	285.1 million	
Free Float	34.5%	
Substantial shareholders	ADD Investment Holding	41.96% (1)
	Nippon Paint (Singapore)	5.56%
Recommendation of other brokers	2 - BUY	

Source: Annual Report, SGX StockFacts, Bloomberg, SAC Capital

(1) Key management team

Analyst
Lam Wang Kwan
+65 6232 3237
lamwk@saccapital.com.sg

Terence Chua
+65 6232 3236
tchua@saccapital.com.sg

ISOTeam off to a good start for FY2020

ISOTeam Ltd, and together with its subsidiaries ("ISOTeam" or the "Company", or the "Group") announced a revenue of S$28.3 million for 1QFY20, which represented a 3.7% increase as compared to the revenue of S$27.3 million recorded in the corresponding period a year ago. The increase was mainly driven by the increase in revenue from the R&R and C&P segments which was partially offset by weaker performance from the A&A and Others segments. In addition, other income rose while operational expenses decreased. As a result, ISOTeam's net profit attributable to equity holders for 1QFY20 surged by 44.3% to S$1.1 million.

ISOTeam remained cautiously optimistic. As at 31 October 2019, ISOTeam's order book stood at S$148.2 million which is expected to be progressively delivered over the next two years. Included is an A&A contract to supply, install, construction, completion and maintenance of architectural works to Lentor MRT station which represented the Group's first MRT project. ISOTeam is also expecting the proposed acquisition of Pure Group and asset transfer agreement with Mobike to be completed by 2019, which are expected to further boost the Group's overall business.

Positive industry tailwinds. With its strong capabilities and proven track records, ISOTeam is well-positioned to take advantage of the slew of projects that are progressively being rolled out. These include 1) government initiatives such as Neighbourhood Renewal Programme, Hawker Centre Upgrading Programme, Home Improvement Programme I & II and Round Island Route Programme; 2) opportunities from the integrated resorts' future plans and other private sector projects both domestically and regionally and; 3) green initiatives such as the SolarNova Programme, Offshore Floating Solar Farms and Land Transport Master Plan 2040.

Maintained BUY. In view of its strong FY19 performance, its potential for growth and its strong start to FY20, we have maintained our target price of S$0.325 per share backed by our DCF model (WACC: 4.8% and Terminal Growth: 1.2%).

Key risk: Uncertainty in job tendering.

Key Financials

Year ended 30 June	FY2017 (restated)	FY2018 (restated)	FY2019	FY2020F	FY2021F
Revenue	82,922	83,801	136,601	182,900	210,500
% Growth	-11.9%	1.1%	63.0%	33.9%	15.1%
Gross profit	21,636	12,963	21,635	29,264	33,680
Gross profit margin (%)	26.1%	15.5%	15.8%	16.0%	16.0%
Profit attributable to owners	6,447	491	6,757	7,813	8,885
Profit before tax margin (%)	8.4%	-1.0%	5.3%	5.3%	5.2%
Profit after tax margin (%)	7.8%	0.6%	4.9%	4.3%	4.2%
Basic EPS (S$ cents)	2.27	0.66	2.37(1)	2.75	3.13
P/E (x)	10.4	35.6	9.9	8.5	7.5
P/B (x)	1.3	1.3	1.1	0.9	0.8
EV/EBITDA (x)	6.4	16.8	7.5	6.2	5.6
Net Debt/Equity	11.6%	28.4%	52.1%	36.6%	32.3%

Source: Annual Report, SAC Capital

(1) Based on the weighted average number of ordinary share in issue of 284,725,505 and 284,508,757 in FY2019 and FY2018 respectively

ISOTeam continued its growth as net profit rose 44.3% for 1QFY20

Revenue (By Segment)

Revenue (S$million)	1Q20	1Q19	Change
R&R	**9.4**	4.0	133.4%
A&A	**10.0**	15.0	(33.5)%
C&P	**4.3**	2.8	54.3%
Others	**4.6**	5.5	(16.1)%
Total	**28.3**	**27.3**	**3.7%**

Source: Company Data, SAC Capital

Business Overview:

ISOTeam Ltd. is an established and leading player in Singapore's building maintenance and estate upgrading industry. The Group also offers a full range of services and solutions comprising specialist Coating & Painting ("C&P") services as well as complementary niche services

Summary: Ongoing Projects (FY19)

	Number	Value (S$'m)
R&R	25	61.9
A&A	17	101.2
C&P	65	32.8
Others	47	39.5

Source: Company Data, SAC Capital

ISOTeam announced a revenue of S$28.3 million for 1QFY20, which represented a 3.7% increase as compared to the revenue of S$27.3 million recorded in the corresponding period a year ago. The topline increase was mainly driven by the increase in revenue from the R&R and C&P segments, which achieved a year-on-year revenue growth of 133.4% and 54.3% respectively. This was partially offset by weaker performance from the A&A and Others segments which were down 33.5% and 16.1% respectively from a year ago.

The Group's gross profit remained stable at S$4.9 million while gross profit margin trimmed slightly to 17.4% as compared to 17.9% recorded in 1QFY19. Other income rose by 75.6% to S$0.3 million due to gain on disposal of plant and equipment and higher government grant received while operational expenses, on a whole, decreased due to higher efficiency from the consolidation of operations at the Group's new headquarters at Changi North. As a result, ISOTeam's net profit attributable to equity holders for 1QFY20 surged by 44.3% to S$1.1 million.

ISOTeam remained cautiously optimistic. As at 31 October 2019, ISOTeam's order book stood at S$148.2 million which is expected to be progressively delivered over the next two years. Included in the order book, is an A&A contract to supply, install, construction, completion and maintenance of architectural works to Lentor MRT station. This represented the first MRT A&A project secured by the Group. Through this opportunity and track record, ISOTeam hopes to continue to explore business opportunities for other MRT projects.

Previously, ISOTeam announced the proposed acquisition of Pure Group to strengthen its commercial and retail fitting-out capabilities, as well as project and management services across Singapore, the Philippines, China, Malaysia and Thailand. On top of that, the Group also entered into an asset transfer agreement with Singapore Mobike to enhance the Group's market share in the bike sharing industry amidst the Land Transport Master Plan 2040. ISOTeam is expecting these transactions to be completed by 2019.

Positive industry tailwinds. With its strong capabilities and proven track records, ISOTeam is well-positioned to take advantage of the slew of projects that are progressively being rolled out. These include government initiatives such as the repainting of external walls, Neighbourhood Renewal Programme, Hawker Centre Upgrading Programme, Home Improvement Programme I & II and Round Island Route Programme. On top of that, the Pure Group acquisition also put the Group in better position to capitalise on opportunities from the integrated resorts' future plans and other private sector projects both domestically and regionally. In addition, ISOTeam's commitment and experience in green solutions also put it in pole position to win contracts from green initiatives such as the SolarNova Programme, Offshore Floating Solar Farms and Land Transport Master Plan 2040.

Maintained BUY. Driven by positive industry sentiments and the Group's capabilities in winning and executing projects, we expect the Group to be able to continue securing more contracts. The Group's current order book of S$148.2 million as at 31 October 2019 is expected to be further boosted by opportunities arising through the acquisition of Pure Group and its recent venture into MRT projects. In view of the stellar FY19 performance, the strong start to FY20 and its potential for growth, we have maintained our target price of S$0.325 per share backed by our DCF model (WACC: 4.8% and Terminal Growth: 1.2%). The target price is 32.7% above the current share price of S$0.245 per share.

Recent developments

Acquisition of Pure Group

ISOTeam announced that it had entered into a conditional sale and purchase agreement to acquire Pure Group (Singapore) Pte. Ltd., Pure Projects (Philippines) Inc, Pure Projects Construction Advisory Shanghai Co Ltd, Pure Projects Management Sdn. Bhd., Pure Projects SEA Pte. Ltd. and Pure Projects SEA Ltd (together, "**Pure Group**") for an aggregate purchase consideration of S$24,000,000. The Group of companies principally engaged in the provision of project and construction management services, as well as commercial and retail fitting-out works in Singapore, Philippines, China, Malaysia and Thailand. S$12,000,000 of the purchase consideration will be paid in cash while the rest will be settled by the issuing of 47,393,365 non-listed transferable warrants, which will only be released to the seller upon fulfilment of the respective profit targets.

Under the agreement, 11,848,341 Consideration Warrants, which value is equivalent to approximately S$3,000,000 will be released from escrow to the Seller upon the Pure Businesses achieving an audited consolidated profit after tax of at least S$3,000,000 for FY2020 or if the FY2020 Earn-Out Payment is not achieved, the Seller has made full payment in cash for the shortfall and 35,545,024, which value is equivalent to approximately S$9,000,000 will be released from escrow to the Seller upon the Pure Businesses achieving an audited consolidated profit after tax of at least S$5,000,000 for FY2021 or if the FY2021 Earn-Out Payment is not achieved, the Seller has made full payment in cash for the shortfall. The proposed acquisition will expand ISOTeam's capability to offer the full suite of project and construction management services as well as offer an opportunity for the Group to leverage on the networks and capabilities of Pure Businesses as a project and construction manager. This is expected to result in increased business opportunities and growth for the Group.

On 1 November 2019, it was announced that the proposed acquisition had been extended to 31 December 2019 as mutually agreed by the parties.

Asset transfer agreement with Singapore Mobike

ISOTeam announced that it had entered into an asset transfer agreement with Singapore Mobike Pte. Ltd. ("**Singapore Mobike**") for the proposed acquisition of a total of 25,000 bikes, along with their licenses, by 51% owned SG Bike Pte. Ltd. ("**SG Bike**"). The aggregate purchase consideration will be US$1,847,800 or approximately S$2,540,725. SG Bike will also assume the liabilities of Singapore Mobike to repay user deposits and prepayments in an aggregate amount not exceeding US$1,470,000 or approximately S$2,021,250.

On 30 October 2019, it was announced that the proposed acquisition had been extended to 30 November 2019 as mutually agreed by the parties

SAC Advisors Forecast Summary

	Fiscal Year Ended 30 June						
Revenue by segment (S$'000)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Repairs & Redecoration	54,467	40,248	20,900	19,765	27,258	22,250	23,500
Additions & Alterations	17,403	24,390	32,385	36,236	67,674	77,400	80,000
Coating & Painting	3,550	11,750	14,317	9,895	14,350	21,350	23,000
Others	6,232	17,761	15,320	17,905	27,319	61,900	84,000
Total	**81,652**	**94,149**	**82,922**	**83,801**	**136,601**	**182,900**	**210,500**

	Fiscal Year Ended 30 June						
Revenue % (Y-Y)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Repairs & Redecoration	12.7%	-26.1%	-48.1%	-5.4%	37.9%	6.0%	5.6%
Additions & Alterations	-14.6%	40.1%	32.8%	11.9%	86.8%	6.0%	3.4%
Coating & Painting	N/A	231.0%	21.8%	-30.9%	45.0%	6.8%	7.7%
Others	445.7%	185.0%	-13.7%	16.9%	52.6%	106.3%	35.7%
Total	**16.9%**	**15.3%**	**-11.9%**	**1.1%**	**63.0%**	**27.0%**	**15.1%**

	Fiscal Year Ended 30 June						
Revenue breakdown (%)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Repairs & Redecoration	66.7%	42.7%	25.2%	23.6%	20.0%	12.2%	11.2%
Additions & Alterations	21.3%	25.9%	39.1%	43.2%	49.5%	42.3%	38.0%
Coating & Painting	4.3%	12.5%	17.3%	11.8%	10.5%	11.7%	10.9%
Others	7.6%	18.9%	18.5%	21.4%	20.0%	33.8%	39.9%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

	Fiscal Year Ended 30 June						
Gross profit	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Gross profit growth	49.3%	19.9%	-10.4%	-40.1%	66.9%	35.3%	15.1%
Gross profit margin	24.7%	25.7%	26.1%	15.5%	15.8%	16.0%	16.0%
Gross Profit (S$'000)	**20,153**	**24,156**	**21,636**	**12,963**	**21,635**	**29,264**	**33,680**

	Fiscal Year Ended 30 June						
Operating profit**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Operating Profit margin	12.0%	11.3%	9.0%	N/A	6.2%	6.0%	5.8%
Operating Profit growth y-y	38.3%	9.2%	-29.8%	-103.0%	N/A	29.6%	12.1%
Operating Profit (S$'000)	**9,771**	**10,674**	**7,488**	**-227**	**8,419**	**10,912**	**12,230**

	Fiscal Year Ended 30 June						
Profit Growth (%) (Y-Y)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Profit before tax	41.9%	8.1%	-32.0%	N/A	N/A	32.4%	13.7%
Profit after tax*	34.1%	13.6%	-30.1%	-92.4%	1,276.2%	15.6%	13.7%
Profit before tax (S$'000)	**9,519**	**10,291**	**6,995**	**-797**	**7,255**	**9,606**	**10,924**
Profit after tax* (S$'000)	**8,124**	**9,227**	**6,447**	**491**	**6,757**	**7,813**	**8,885**

	Fiscal Year Ended 30 June						
Profit margin (%)	**2015**	**2016**	**2017**	**2018**	**2019**	**2020E**	**2021E**
Profit before tax	11.7%	10.9%	8.4%	N/A	5.3%	5.3%	5.2%
Profit after tax*	9.9%	9.8%	7.8%	0.6%	4.9%	4.3%	4.2%

Source: Company data, SAC Capital

** Profit attributable to owners of the Company*

*** In-house estimate*

N/A: Not Applicable

Income Statement (S$'000)

(S$'000)	2017	2018 (restated)	2019	2020F	2021F
	Fiscal Year Ended 30 June				
Revenue	**82,922**	**83,801**	**136,601**	**182,900**	**210,500**
Cost of sales	(61,286)	(68,914)	(114,966)	(153,636)	(176,820)
Gross profit	**21,636**	**14,887**	**21,635**	**29,264**	**33,680**
Other income	2,662	1,860	3,109	1,860	1,860
Marketing and distribution expenses	(1,375)	(1,813)	(1,173)	(1,829)	(2,105)
General and administrative expenses	(15,083)	(13,664)	(14,762)	(17,376)	(19,998)
Other operating expenses	(352)	(438)	(409)	(1,008)	(1,208)
Finance costs	(493)	(570)	(1,164)	(1,306)	(1,306)
Profit before income tax	**6,995**	**262**	**7,255**	**9,606**	**10,924**
Income tax expense	(260)	520	(952)	(1,633)	(1,857)
Profit for the year	**6,735**	**782**	**6,303**	**7,973**	**9,067**
Profit/(loss) attributable to:					
Owners of the Company	6,447	1,889	6,757	7,813	8,885
Non-controlling interests	288	(1,107)	(454)	159	181
Earnings per share attributable to owners of the Company (Cents)					
Basic	**2.27**	**0.66**	**2.37[1]**	**2.75**	**3.13**
Diluted	**2.27**	**0.66**	**2.37[1]**	**2.75**	**3.01**

[1] Based on the weighted average number of ordinary share in issue of 284,725,505 and 284,508,757 in FY2019 and FY2018 respectively

The number of diluted shares is calculated assuming the exercise of 11,848,341 warrants for FY2021 in association with the Pure Group acquisition

Cash Flow Statement (S$'000)

(S$'000)	2017	2018 (restated)	2019	2020F	2021F
	Fiscal Year Ended 30 June				
Profit before tax	**6,995**	**(797)**	**7,255**	**9,606**	**10,924**
Depreciation & amortisation	3,972	5,132	4,637	4,351	4,668
Change in working capital	(16,269)	(7,759)	(20,922)	3,752	(6,259)
Others	1,100	443	960	1,187	1,187
Interest and taxes	(1,338)	(466)	(1,942)	(2,820)	(3,044)
Net Cash (used in)/ from operations	**(5,540)**	**(3,447)**	**(11,723)**	**16,075**	**7,475**
Purchase of PPE	(14,400)	(5,686)	(1,392)	(4,395)	(3,955)
Others	(6,779)	3,215	193	(12,000)	0
Net Cash (used in)/ from investing	**(21,179)**	**(2,471)**	**(1,136)**	**(16,395)**	**(3,955)**
Net change in equity	(1,626)	(322)	(322)	0	0
Net change in debt	10,893	5,310	9,648	12,000	0
Dividends paid	(2,135)	(1,972)	(527)	(1,400)	(2,367)
Others	550	(1,111)	(50)	0	0
Net Cash (used in)/ from financing	**7,682**	**1,905**	**8,749**	**10,600**	**(2,367)**

Balance Sheet (S$'000)

(S$'000)	2017 (restated)	2018 (restated)	2019	2020F	2021F
	Fiscal Year Ended 30 June				
PPE	29,725	34,238	30,247	33,951	33,934
Goodwill	2,658	2,658	2,658	2,658	2,658
Investment property	0	0	911	895	878
Intangible assets	4,650	2,923	2,075	1,567	889
Other non-cuurent assets	6,462	6,048	8,181	22,269	22,269
Total non-current assets	**43,495**	**45,867**	**44,072**	**61,340**	**60,628**
Cash and cash equivalents	14,830	12,200	9,029	18,655	19,808
Trade and other receivables	23,661	27,665	33,523	50,806	58,472
Asset held for sale	0	0	2,330	2,330	2,330
Inventories	271	486	1,877	1,536	1,768
Due from customers for contract work-in-progress	12,437	15,661	32,151	32,922	37,890
Other current assets	0	0	0	0	0
Total current assets	**51,199**	**56,012**	**78,910**	**106,249**	**120,268**
Total assets	**94,694**	**101,879**	**122,982**	**167,589**	**180,896**
Finance leases	1,752	2,478	2,764	3,018	3,018
Bank borrowings	11,701	12,101	9,927	11,249	11,249
Other non-current liabilities	2,175	1,160	898	1,160	1,160
Total non-current liabilities	**15,628**	**15,739**	**13,589**	**15,427**	**15,427**
Due to customers for contract work-in-progress	0	0	0	5,377	6,189
Bank borrowings	6,408	11,699	25,922	30,920	30,920
Trade and other payables	19,691	19,583	22,570	38,409	44,205
Finance leases	972	1,150	1,283	1,299	1,299
Other current liabilities	158	140	375	140	140
Total current liabilities	**27,229**	**32,572**	**50,150**	**76,145**	**82,753**
Total liabilities	**42,857**	**48,311**	**63,739**	**91,572**	**98,180**
Share capital	29,618	29,618	29,618	29,618	32,618
Treausry shares	(562)	(256)	(578)	(172)	(172)
Accumulated profits	29,418	28,066	34,309	46,548	53,193
Foreign currency translation reserve	8	22	44	16	16
Merger reserve	(7,338)	(7,338)	(7,338)	(7,338)	(7,338)
Other reserve	(4)	1,065	1,065	5,286	2,286
Equity attributable to owners of the Company	**51,140**	**51,177**	**57,120**	**73,958**	**80,603**
Non-controlling interests	697	2,391	2,123	2,058	2,113
Total equity	**51,837**	**53,568**	**59,243**	**76,017**	**82,716**
Total equity and liabilities	**94,694**	**101,879**	**122,982**	**167,589**	**180,896**

Ratios

	2017	2018	2019	2020F	2021F
	Fiscal Year Ended 30 June				
Profitability (%)					
Gross profit margin	26.1%	15.5%	15.8%	16.0%	16.0%
Operating profit margin	9.0%	-0.3%	6.2%	6.0%	5.8%
Profit before tax margin	8.4%	-1.0%	5.3%	5.3%	5.2%
Profit after tax margin	7.8%	0.6%	4.9%	4.3%	4.2%
Liquidity (x)					
Current ratio	1.9	1.7	1.6	1.4	1.5
Quick ratio	1.9	1.7	1.6	1.4	1.5
Interest coverage ratio	15.2	-0.4	7.2	8.4	9.4
Net Debt to Equity	12%	28%	52%	37%	32%
Valuation (x)					
P/S	0.8	0.8	0.5	0.4	0.3
P/E	10.4	35.6	9.9	8.5	7.5
P/E (ex-cash)	8.1	112.0	8.6	6.2	5.3
P/B	1.3	1.3	1.1	0.9	0.8
EV/EBITDA	6.4	16.8	7.5	6.2	5.6
Cash Conversion Cycle					
Trade receivable days	94	112	132	101	101
Inventory days	2	3	4	4	4
Trade payable days	122	101	96	91	91
CCC days	(27)	13	40	14	14
Returns					
Return on equity	12.3%	1.0%	12.5%	11.4%	11.5%
Return on capital employed	11.9%	-0.3%	11.8%	12.7%	12.9%
Dividend payout ratio	28.5%	27.2%	28.4%	28.4%	28.4%

Sources: Company Data, SAC Capital

DISCLAIMERS AND DISCLOSURES

This report has been prepared and distributed by SAC Capital Private Limited ("**SAC Capital**") which is a holder of a capital markets services licence and an exempt financial adviser in Singapore.

This report has been prepared for the purpose of general circulation. We have not had regard to the specific investment objectives, financial situation, tax position or unique needs and constraints of any individual person or any specific group of persons and does not purport to be comprehensive or contain all necessary information which a prospective investor may require in arriving at an investment decision. Any prospective purchaser should make his own investigation of the securities and all information provided. Advice should be sought from a financial adviser regarding suitability, taking into account the specific investment objectives, financial situation or particular needs of the person in receipt of the recommendation, before a commitment to purchase is entered into.

This report does not constitute or form part of any offer or solicitation of any offer to buy or sell any securities. This report is confidential and the information in this report shall not be copied or reproduced in part or in whole, and save for the recipient of this report, shall not be disclosed to any other person without the prior written consent of SAC Capital. The distribution of this report outside the jurisdiction of Singapore is also strictly prohibited.

Whereas SAC Capital has not independently verified all the information set out in this report, all reasonable care and effort has been taken to ensure that the facts stated herein are accurate, this report might contain certain forward looking statements and forward looking financial information which are based on certain assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the subject company to be materially different from those expressed herein. Predictions, projections or forecasts of the economy or market trends are not indicative of the future performance of the subject company. The inclusion of such statements and information should not be regarded as a representation, warranty or prediction with respect to the accuracy of the underlying assumptions of the subject company or that the forecast results will or are likely to be achieved.

Our opinion and facts set out in this report are based on the market, economic, industry and other applicable conditions prevailing as at the date of the preparation of this report. Such conditions may change significantly over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report, that may or may not have affected our opinion contained herein.

This report contains forward-looking statement which are based on assumptions or forecasts and are subject to uncertainties which may result in the actual result or performance to be materially different from the opinion or facts set out herein. Caution should be exercised in placing undue reliance on such statements. such assumptions or forecasts may change over a relatively short period of time and we assume no responsibility to update, revise or reaffirm our opinion in light of any development subsequent to the publication of this report.

No representation or warranty, expressed or implied, is made and no responsibility is accepted by the company, SAC Capital, or any of their affiliates, advisers or representatives as to the fairness, accuracy, completeness or adequacy of such information or facts, in this report or any other written or oral information made available to any interested party or its advisers and any liability therefore is hereby expressly disclaimed.