SAC Year End Review 2020

Date: 23 December 2020

2020 – a year in review and look ahead

COVID-19 turned global markets upside down in 2020. Global gross domestic product (“**GDP**”) saw a contraction and stock and bond markets tanked in March 2020. The world went into lockdown to curb the spread of the virus. To mitigate the economic impact, the US Federal Reserve cut key interest rate to near zero and many countries around the world offered Covid-19 relief to revive their economies. In Singapore, GDP forecasts was adjusted sharply down into the negative territory, with official forecasts by the Ministry of Trade and Industry at -6.0% and -6.5% vs. the previous estimated rate of 0.5% and 2.5%. As we head into 2021, a deeper economic slowdown is a key risk to consider, with the Covid-19 situation and progress of vaccine distribution being key factors for recovery. While there has been some pause in the US-China trade conflict, investors are keeping their eyes peeled on changes that would come as President-elect Joe Biden takes office in January 2021.

In this year end report, we recap significant events in 2020 in both the world and Singapore, highlight some key emerging trends, review the Singapore market and end with a highlight on stock picks in our recommendation list.

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The World in 2020

Covid-19 Impact on the World Economy

Coronavirus disease ("**Covid-19**") first emerged from Wuhan, China in late December 2019. It subsequently led to an outbreak in other Chinese cities and soon spread to the rest of the world. Unfortunately, Covid-19 happened when the global economy was in a slowdown, intensifying its impact on individuals, communities and organisations.

According to the World Bank, the global gross domestic product ("**GDP**") is forecasted to contract by 5.2% in 2020. Despite the efforts from the various governments to manage the economic downturn, this economic contraction has become the worst global recession experienced in decades. Major economies such as the US, Germany and Japan are forecasted to have a -5.0%, -5.7% and -5.9% year-on-year ("**yoy**") change in their GDP respectively. The exception to this is China, in which GDP is forecasted to see a 1.9% yoy growth, being one of the first countries to bring the Covid-19 situation under control.

Emerging from its lockdown, China's economy has benefitted greatly from the resumption of domestic activities such as dining in and domestic travel. According to the National Bureau of Statistics, China's retail sales saw an increase of 3.3% in September yoy, with many Chinese consumers and tourists returning to eateries, shopping malls and taking flights and trains. Despite being the only major economy seeing growth in 2020, the figure pales in comparison to the strong growth China saw in the previous years. In comparison, China recorded a 6.1% GDP growth in 2019. The decline in economic growth shows the significant impact the pandemic have on a country's economy despite improvements in the pandemic situation. The negative economic outlook highlighted to governments globally the urgency to solve the pandemic crisis.

The pandemic has also led to a fall in employment rate in many countries. According to International Labour Organisation, the number of global working hours decreased by 14.0% in the second quarter this year, equivalent to over 400 million full time jobs lost. Reasons for the decrease can be attributed to workers taking temporary unpaid leave or employees being retrenched.

Notably, working hours in the US fell by 18.3%, making it one of the most severely impacted countries. Similarly, the Bureau of Labour Statistics also reported that the unemployment rate in the US was at 4.4% in March 2020, the highest recorded in the country since August 2017. In Singapore, the unemployment rate has also risen to 3.6% in 2020 from 2.3% in 2019.

Having a high unemployment rate is detrimental to a country's economy. A smaller workforce will result in lower production of various goods and services and at the same time decrease spending amongst consumers. This will in turn impede the country's economic growth and development. In an attempt to reduce the impact of growing unemployment rates, governments around the world have tried to provide support through various unemployment benefits. For example, in the US, the Coronavirus Aid, Relief, and Economic Security (CARES) Act allows for unemployed workers and self-employed workers to receive unemployment benefits.

Asset classes such as bonds and equities have also been affected due to the increasing volatility of the financial market. In the US, 10-year bond yields fell below 0.5% during March from an average of 2.1% in 2019. In the period between February and August, about 62.0% of companies in the S&P 500 index suffered losses. However, hopes on an economic recovery have risen on the back of recent US presidential election outcome and improved market sentiment about the pandemic situation. As a result, 10-year treasury bond yields have risen by 0.04 percentage point to 0.9% as of November 2020.

Furthermore, much progress has been made in the development of the Covid-19 vaccine, with many trial vaccines reaching its final stages of testing. For example, Pfizer and BioNTech has developed a trial vaccine that has 95.0% success rate across various demographics of patients. With the company securing US and European authorisation, there is a possibility of vaccine production by the end of the year. The recovery of the global economy will depend largely on the situation pertaining to the Covid-19 pandemic next year, which will greatly rely on the development of the vaccine and the handling of the pandemic situation.

The World in 2020

Covid on Airlines, Hotels and Service Industries

With measures such as community lockdowns, social distancing and travel restrictions, the hospitality industry (accommodations, food & beverage, travel and tourism) has been one of the hardest hit industries from the impact of Covid-19.

The aviation sector was affected as a whole as the world saw a severe drop in demand for airline services as a result of travel restrictions imposed due to Covid-19. According to International Air Transport Association (IATA), global airlines revenue per passenger kilometre fell by 90.0% yoy in April 2020 and is still down 75.0% in August 2020. This has affected the liquidity buffers of airlines as they struggle to cover their operating cost despite the recent fall in oil prices (fuel accounts for approximately 25.0% of total cost). Furthermore, many airlines still face uncertainties in terms of the recovery of their commercial flights. Global travel restrictions, low economic activity and changes in passengers' behaviour may prevent the industry from recovering to the pre-pandemic levels. Moreover, the airlines industry may potentially face a permanent drop in demand as some consumers may have already adapted to online communication instead of physical meeting, reducing the need for business travel.

Similarly, the hotel industry also sees an uncertain recovery trend. According to McKinsey, it is predicted that return to pre-Covid levels could have to wait until as long as 2023 or even later. Market Watch also reported that large hotel chains such as Hilton are facing challenges during this period as the group saw its worst decline in revenue per available room (RevPAR) by almost 80.0% and had accumulated a net loss of USD $430 million in the second quarter of 2020. Similarly in Singapore, measures such as the 'Circuit Breaker' and suspension of all non-essential travel, have also impacted the country's hotel industry and resulted a 75.0% drop in RevPAR in the 2nd quarter of 2020.

The aviation and travel industry has been receiving bailouts from the government. In the US, the Coronavirus Aid, Relief, and Economic Security (CARES) Act that was signed into law in March, provided airlines a total of $25 billion to keep their employees in labor force until September 30.

US Presidential Elections 2020

The 2020 US elections, held on 3 November 2020, saw Democratic candidate and former vice president Joe Biden and incumbent US senator Kamala Harris defeating the republican incumbent president Donald Trump and vice president Mike Pence. This election generated the highest turnout rate in 120 years, with an estimate of 160 million voters out of the eligible 239 million.

Trump managed to secure the Republican nomination without much opposition, whereas Biden secured the Democratic nomination against his closest rival Bernie Sanders. Biden's running mate, Harris was the first African-American, first Asian-American and third female vice president nominee. This US presidential election held a record number of ballots casted by mail due to the Covid-19 pandemic. The pandemic also resulted in many states seeing delays in vote-counting and reporting, resulting in a four-day delay in projections of the winner.

During this period, Trump and many Republicans tried to overturn the election results, alleging that there were voter frauds and attempting to influence the counting and tallying process. Moreover, there were many instances where Trump falsely declared himself as the winner of the election. However, many state officials refuted these claims as baseless, citing a lack of evidence.

Although many large media outlets called the election for Biden in early November, the head of the General Services Administration only officially acknowledged Biden and Harris as winners on 23 November 2020.

With President-elect Biden being officially declared as the winner of the US election, the formal transition process can now proceed. However, with Trump's grudging concession, the ongoing transition process may be greatly affected. With so much that the newly elected president has to be brought up to speed with, Trump's obstruction may lead to one of the most difficult US presidential transitions. Delays in the transition process can result in national security challenges, especially as the US is currently facing racial equality issue on top of coping with the Covid-19 pandemic.

The World in 2020

US - China Relations

The US - China trade war is an ongoing economic conflict that has brought about huge economic losses to both countries. According to the Bank of Finland, the trade war has impacted GDP growth in China by 1.0% and in the US by around 0.9%. The trade war began back in 2018 when US president Donald Trump imposed tariffs and trade barriers on Chinese imports with the aim of reducing US and China trade deficit. China retaliated by imposing its own tariffs on US agricultural exports, with total tariffs equivalent to US$3 billion. Despite both countries signing the phase one trade deal in January 2020, the trade disputes between both countries have deteriorated throughout the year.

The trade war has severely impacted both countries' economy with many industries facing financial difficulties. In the US, sectors such as farming and agriculture has taken a huge hit as retaliation from China has led to higher prices for US exports, resulting in a decrease in revenue for US farmers. Furthermore, many industries in the US has begun to source for materials from other locations in Asia, fearing that a further escalation in trade war will disrupt supply chains.

In China, the trade conflict caused a decrease in industrial output. The tariffs imposed on Chinese exports has decreased demand for a wide range of products that are manufactured in China, resulting in the spread of economic pain across the country. According to the IMF, the global Trade Uncertainty Index has been rising sharply after being relatively stable for the past 20 years. In the past year, the index has increased by 10-fold due to the uncertainty brought about by the trade war. Trade uncertainty has not only increased amongst US and China but also in other countries in the Americas and Asia.

Apart from the trade tariffs imposed, the dispute between both countries also includes business restrictions on individual companies. On 6 August, the US placed executive orders that targeted social media app TikTok and messaging app WeChat. These orders demanded that both apps to not be allowed to process transactions and prevent US citizens from downloading it from the US app stores after just 45 days of passing the orders.

Following this, US president Trump placed another separate order that will see the permanent ban of TikTok if it is not bought over by a US company by 14 November.

This move was argued to be in the interest of national security as TikTok's parent company, ByteDance is linked to the Chinese Government. Similar concerns were also cited for the WeChat app which claimed that China authorities can gain access to Americans' private information and the app can be used to spread disinformation. However, district court judge from the US has blocked the ban with a preliminary injunction. Looking to evade the ban through the selling of its US operations to US firms, TikTok has been attracting acquisition interest from companies such as Walmart and Oracle. Should the deal fail, US service providers could ban the app by blocking US IP usage, hence making it unusable in the country.

Moreover, US - China relations could face further tensions due to the recent 'Holding Foreign Companies Accountable Act' (HCAA) that was passed in the US. The Act states that any foreign companies listed on US stock exchanges must comply with accounting requirements stipulated by the US Securities and Exchange Commission (SEC), whereby non compliance will lead to the delisting of the company. As such, this ensures better transparency amongst international companies listed on the US stock exchange.

Although the HCAA applies to all foreign companies, the Act can be seen as a retaliation towards China as Chinese laws prevents audit documents from leaving the country, making it difficult for any verification by the US regulators. This could result in many Chinese companies being delisted from the US stock exchanges, increasing market volatility and destabilising businesses between the world's two biggest economies.

Given the deteriorating US - China relations, events like the ongoing trade war and ban on Chinese companies may cause a further divide between both countries.

The World in 2020

Brexit 2020

At the start of 2020, UK parliament has formally agreed to the renegotiated Withdrawal Agreement, which has allowed the UK to officially leave the EU on 31 January 2020 while serving a transition period. The purpose of the Withdrawal Agreement is to allow the UK to smoothly leave the EU, with minimal disruption and risk to UK investors and businesses. As the UK entered into a transition period, there are still many issues that needed to be ironed out such as the negotiation of a new trade deal, rules on access to UK waters and security co-operation.

The transition period is an 11-month long process which had begun after the agreed Withdrawal Agreement. During this time, the UK continued to follow the EU's policies, trade practices and still contributed to the EU budget. However, the UK lost its right to vote in the EU. The transition process is crucial as many key issues like trade policies between the UK and EU countries could affect the future of the relationship between them. If the UK-EU trade deal is not be agreed in time, the rules of the World Trade Organisation stated that tariffs and more stringent borders checks will be imposed on UK goods from the EU and vice versa.

The additional tariffs and taxes imposed on goods would make them more costly and less desirable. Moreover, with more stringent border checks on imports, the delays at ports could result in inefficiency. Failure to reach trade agreements may also severely impact many businesses that rely on trades between UK and EU, affecting many individuals and companies.

However, given the ongoing Covid-19 pandemic, trade negotiations between UK and the EU have been greatly affected. According to IHS Markit, if the new trade deal is not established after the 1 January 2021, the UK economy could be faced with a new wave of recession. It was forecasted that the UK economy could contract by 1.4% and 0.4% in the years 2021 and 2022 respectively. Furthermore, the UK economy has so far been heavily impacted by the ongoing Covid-19 pandemic, with a cumulative GDP contraction of 22.1% in the first half of 2020.

Both UK and the EU may seek a mutually acceptable temporary emergence measure to further negotiations after the transition period. This will minimise disruptions in the meantime to supply chains and businesses.

Financial Indicators

As of 11 Dec 2020	Price	1M return	YTD Return
EQUITY INDICES			
Developed			
S&P 500	3,663.46	2.2%	13.4%
FTSE 100	6,546.75	3.9%	-13.0%
Nikkei 225	26,652.52	5.3%	13.0%
Hang Seng Index	26,505.87	0.9%	-6.4%
Straits Times Index	2,821.70	4.3%	-13.2%
Emerging			
KOSPI	2,770.06	12.9%	27.3%
SHCOMP	3,347.19	-0.4%	8.5%
SENSEX	46,099.01	6.5%	11.6%
IBOV	115,128.00	9.6%	-2.9%
CURRENCIES			
USD/JPY	104.04	0.8%	4.7%
USD/EUR	0.83	-2.5%	-7.7%
USD/GBP	0.76	-1.7%	-1.2%
EUR/GBP	0.92	-0.8%	-6.6%
USD/CNY	6.55	0.6%	6.4%
COMMODITIES (in USD)			
Gold per oz.	1,820.94	-3.5%	20.4%
Oil (WTI)	47.05	17.4%	-22.8%
BONDS (%, % points)*			
US Treasury 10Y Yield	0.896	-0.063	-0.892
JGB 10Y Yield	0.010	-0.031	0.030
German Bund 10Y Yield	-0.638	-0.152	-0.354

Source: Bloomberg, SAC Capital

Singapore in 2020

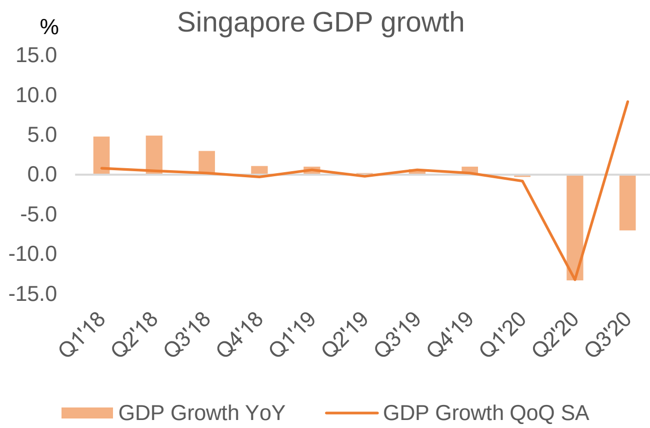
Covid-19 Impact

Like the rest of the world, the Covid-19 pandemic has landed a devastating blow to the Singapore economy. In November last year, the Ministry of Trade and Industry ("**MTI**") had forecasted Singapore's full-year gross domestic product ("**GDP**") growth for 2020 to be between 0.5% and 2.5% amidst modest pick-up in global growth and recovery in the global electronics cycle. Yet, the unprecedented Covid-19 situation had caused a downturn in almost all sectors of the economy, leading to the MTI slashing its GDP forecast to be between -6.0% and -6.5% in its latest November update. According to the MTI, the last time Singapore witnessed negative full-year GDP growth was due to the Internet dotcom crash, in which the economy contracted by 1.1% in 2001.

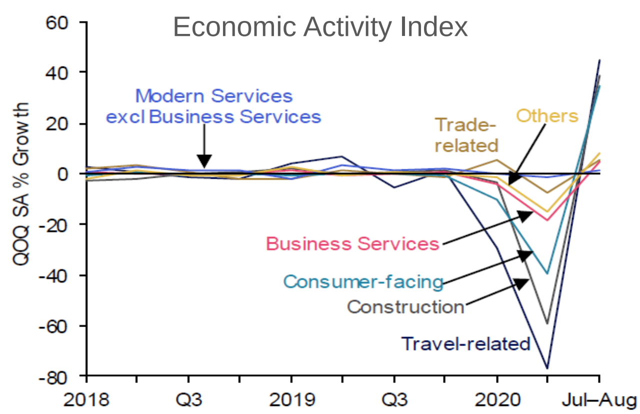
2020 also saw Singapore's unemployment rate rise to the highest level in over a decade. According to the Ministry of Manpower, the overall unemployment rate stood at 3.4% in August, beating the previous recessionary high of 3.3% recorded in September 2009, before inching even higher to 3.6% in September 2020. Another indicator, the resident unemployment rate, which takes into account Singaporeans' and permanent residents' unemployment data, rose to 4.5% in August and 4.7% in September.

Following the phased reopening of the economy in June after the circuit breaker period, Singapore experienced a supply-side boost as a result of the resumption of business activities. Correspondingly, Singapore saw its Q3 GDP grow 9.2% on a quarter-on-quarter seasonally adjusted basis. Yet, the economy still shrank by 5.8% for Q3 on a year-on-year basis, though this was a stark improvement from the 13.3% slump recorded in Q2. According to the October Macroeconomic Review released by the Monetary Authority of Singapore ("**MAS**"), the supply-side boost is likely to taper off after the third quarter while firms and households hold back on investment and discretionary spending. MAS had warned that economic recovery is expected to moderate in the coming quarters and that it would take a longer time for Singapore's economy to rebound as compared to past recessions, which typically took three quarters to return from the through to its pre-crisis level.

Currently, the Singapore economy is projected to return to growth in 2021, with a forecast of 4.0% to 6.0%. The growth is expected to be spurred on by improved outlook and expansion of the trade and manufacturing sectors as well as a gradual recovery in the construction, aviation and tourism sectors.



Source: Department of Statistics Singapore, SAC Capital



Source: EPG, MAS estimates

Index (Q4 2019=100), SA	Contraction		Growth Rebound
	Q1 2020	Q2 2020	Q3 2020
Overall GDP	99.2	86.1	92.8
Worst-hit Sectors (12% of real GDP in 2019)			
• Travel-related (air transport, accommodation, AER)			
• Consumer-facing (food services, retail, land transport)			
• Construction			
Significantly-hit Sectors (15% of GDP)			
• Real estate			
• Other business services			
Less Affected Sectors (63% of GDP)			
• Trade-related (manufacturing, wholesale, transport & storage excluding air and land)			
• Modern services (ICT, financial)			
• Other domestic-oriented (public admin, health & social, education, others)			
Others (11% of GDP)			
• Ownership of dwellings			
• Taxes on products			

Note: Red (green) cells refer to output declines (increases) relative to Q4 2019 levels. The darker the colour, the greater the segment's deviation from its Q4 2019 level.

Note: Q3 2020 figures are estimates

Source: EPG, MAS estimates

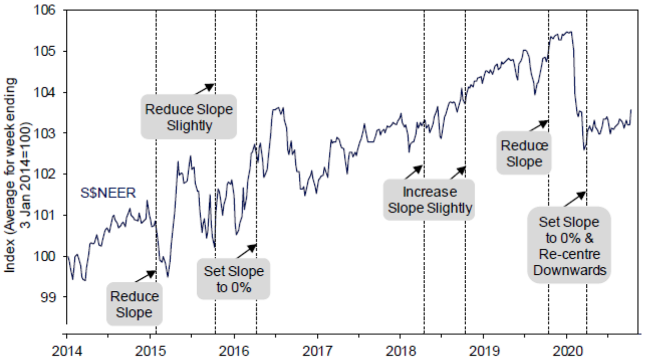
Singapore in 2020

Singapore Economic Policy

In its April 2020 Monetary Policy Statement, Singapore's central bank lowered the mid-point of the Singapore dollar nominal effective exchange rate ("**S$NEER**") band and concurrently flattened its slope by setting the rate of appreciation to zero per cent per annum. This was the first time since April 2009, during the global financial crisis, that the MAS had lowered the mid-point of its policy band. The pull-back on the exchange rate-based monetary policy was in line with the expectation on the negative outlook of the Singapore economy amidst the uncertainty and downside risks brought on by the pandemic crisis.

The move was aimed to ease the pace at which the Singapore dollar could strengthen. This would help to bolster the cashflow for firms that invoice their exports in foreign currency. Moreover, the easing would also help to eliminate expectation of future depreciation of the Singapore dollar and allow interest rates to fall in line with global interest rates. Using the Monetary Model of Singapore, MAS estimated that the S$NEER depreciation is expected to result in a 1.1% positive impact on GDP in 2020 and 0.8% positive impact in 2021.

In its latest October Monetary Policy Statement, MAS announced that it would keep its monetary policy settings unchanged. Given the weakness in the Singapore economy and in view of a low core inflation rate beyond 2021, MAS believed that it was appropriate to maintain an accommodative policy stance for the time being.



Source: EPG, MAS estimates

In addition to the changes to its monetary policy, the central bank also adopted expansionary fiscal measures to provide immediate support to the economy.

In total, the Singapore government had committed about S$100 billion across four budgets and two ministerial statements to tackle the economic impact brought about by the Covid-19 pandemic.

Fiscal Measures	Fiscal Outlay (including Loans & Guarantees)
Unity Budget	S$6.4 billion
Resilience Budget	S$48.4 billion
Solidarity Budget	S$5.1 billion
Fortitude Budget	S$33.0 billion
Ministerial Statements	S$8.0 billion

Source: MAS, SAC Capital

Initially, the bulk of fiscal measures was aimed to provide immediate financial relief to firms and households that were facing a sharp step-down in revenue and income flows, which would in turn help to forestall premature closure of firms and avoid excessive retrenchment. The objective was to minimise a permanent impairment on Singapore's overall productive capacity.

With the gradual reopening of the economy, the government turned its focus to medium-term fiscal sustainability and reallocated its resources to channel more assistance towards sectors that continued to suffer from the impact of the pandemic. For example, the aerospace, aviation and tourism industries are set to receive a 50% wage subsidy till March next year while relatively resilient sectors such as biomedical sciences, financial services and ICT sectors see its subsidy level dropped from 25% to 10%. Other support measures such as the "SingapoRediscovers" Vouchers and the Aviation Support Package were also implemented to support the travel-related sectors. In addition, the SGUnited Jobs and Skills Package and Job Growth Incentive were used to support domestic employment.

The fiscal impulse is the most expansionary fiscal policy stance Singapore has on record. It is expected to contribute approximately 12.1% of 2020 GDP. Overall, the fiscal measures are expected to reduce domestic economic contraction by about 5.6% this year and 4.8% in 2021. As a whole, the combination of monetary and fiscal policies are estimated to offset GDP contraction by 6.7% in 2020 and 5.6% in 2021.

Singapore in 2020

Push For Digital Economy

Singapore's gross merchandise value ("**GMV**"), a measure of online spending and a signal of the strength of digital economy, is estimated to fall 24% to US$9 billion in 2020. Heavily dependent on the online travel sectors, Singapore's digital economy was greatly affected by the Covid-19 pandemic, with it being the only Southeast Asian country to see a contraction in its GMV in 2020. Yet, this is expected to be just a blip as the Singapore's digital economy is expected to bounce back with a CAGR of 19% to reach US$22 billion by 2025.

Singapore has outlined a three-pronged strategy in its pursuit for the next phase of growth in digital economy. The strategy includes 1) laying strong foundations for the digital economy by investing in digital infrastructure, 2) building international governance frameworks for a more free flow of information and 3) guarding against the opening of a digital divide by strengthening the digital capabilities of the enterprises and people.

The government has pledged S$40 million to build an open and inclusive 5G ecosystem and has begun building its capabilities in other emerging areas such as artificial intelligence and the Internet of Things. On building international relations, Singapore has signed digital economy agreements, which are treaties that establish digital trade rules and digital economy collaborations, with New Zealand, Chile as well as Australia and is currently looking to sign with South Korea and the European Union. Lastly, the government has increased its efforts to bridge the technology gap with initiatives such as deployment of digital ambassadors to help micro-enterprises to adopt e-payment solutions and teach seniors digital skills, funding to encourage SMEs to adopt digital solutions as well as upgrading the people's digital skills through the creation of tech-related traineeships.

As a push for digital economy, MAS announced the awarding of 2 digital full bank licenses to Grab-Singtel consortium and tech giant Sea and 2 digital wholesale bank licenses to Ant Group and a consortium including Greenland Financial Holdings, Linklogis Hong Kong and Beijing Co-operative Equity Investment Fund Management. The move is set to liberalise the financial industry.

Consolidation of REIT

Since last year, Singapore has witnessed a wave of mergers in the Real Estate Investment Trust ("**REIT**") sector. In January 2019, CapitaLand Limited kickstarted a series of REIT mergers with the S$11 billion acquisition of Ascendas-Singbridge Group, which managed Ascendas REIT, Ascendas India Trust and Ascendas Hospitality Trust. In September, OUE Commercial REIT completed its merger with OUE Hospitality Trust by way of a trust of scheme of arrangement to create one of Singapore's largest REITs with total assets of about S$6.8 billion. Following which, Ascott Residence Trust and Ascendas Hospitality Trust combined to create the largest hospitality trust in the Asia-Pacific region, with S$7.6 billion of assets comprising serviced residences and hotels.

The consolidation trend continues well into 2020 with the completion of a S$1.58 billion merger between Frasers Logistics & Industrial Trust and Frasers Commercial Trust by way of a trust scheme of arrangement in April and the merger of CapitaLand Commercial Trust and CapitaLand Mall Trust in October to form third largest REIT in the Asia Pacific and the biggest in Singapore. The combined entity, named CapitaLand Integrated Commercial Trust, has a combined portfolio value of approximately S$22.4 billion. Apart from all the successful mergers, there was also the failed attempt between ESR-REIT and Sabana REIT which was voted down by Sabana REIT's unitholders over valuation issue.

Date	Merger Between
Jan 2019	CapitaLand Limited & Ascendas-Singbridge Group
Sep 2019	OUE Commercial REIT & OUE Hospitality Trust
Dec 2019	Ascott Residence Trust & Ascendas Hospitality Trust
Apr 2020	Frasers Logistics & Industrial Trust & Frasers Commercial Trust
Oct 2020	CapitaLand Commercial Trust & CapitaLand Mall Trust

Source: SAC Capital

Through mergers, REITs are able to gain scale. Bigger REITs are able to attract investment as well as obtain lower cost of funding, which will provide the finances for the REITs to grow even bigger. Bigger REITs are also better able to acquire bigger assets which are an important aspect for growth. Mergers also allow for diversification of the existing portfolio to reduce concentration risk.

Singapore Statistics

SECTORAL GROWTH RATES	3Q19	4Q19	2019	1Q20	2Q20	3Q20
	Year-on-Year % Change					
Goods Producing Industries	**-0.1**	**-1.3**	**-0.8**	**6.3**	**-9.3**	**1.5**
Manufacturing	-0.7	-2.3	-1.4	7.9	-0.8	10.0
Construction	3.1	4.3	2.8	-1.2	-60.0	-46.6
Services Producing Industries	**0.8**	**1.5**	**1.1**	**-2.3**	**-13.4**	**-8.4**
Wholesale & Retail Trade	-3.5	-1.9	-2.9	-5.6	-6.7	-4.3
Transportation & Storage	0.0	0.8	0.8	-7.7	-39.2	-29.6
Accommodation & Food Services	1.9	2.5	1.9	-23.7	-41.8	-24.0
Information & Communications	4.4	4.5	4.3	2.7	-0.8	2.0
Finance & Insurance	4.1	4.0	4.1	8.2	2.7	3.2
Business Services	1.1	1.7	1.4	-3.4	-20.6	-15.2
Other Services Industries	2.4	3.3	2.6	-3.7	-18.2	-8.5
Total	**0.7**	**1.0**	**0.7**	**-0.3**	**-13.3**	**-5.8**
	Annualised Quarter-on-Quarter Growth % (Seasonally-Adjusted)					
Goods Producing Industries	**1.0**	**-0.9**	**-0.8**	**7.1**	**-15.3**	**12.8**
Manufacturing	1.2	-1.5	-1.4	9.6	-9.1	12.1
Construction	0.9	1.3	2.8	-3.2	-59.5	34.5
Services Producing Industries	**0.3**	**0.5**	**1.1**	**-3.4**	**-11.0**	**6.0**
Wholesale & Retail Trade	-0.3	-0.1	-2.9	-4.7	-1.8	2.3
Transportation & Storage	-0.8	0.5	0.8	-8.1	-33.7	15.0
Accommodation & Food Services	1.2	1.1	1.9	-25.9	-23.3	32.4
Information & Communications	2.6	2.1	4.3	-2.6	-2.6	5.2
Finance & Insurance	-0.5	0.9	4.1	4.2	-2.0	0.1
Business Services	0.3	0.5	1.4	-4.0	-17.9	7.0
Other Services Industries	0.7	0.8	2.6	-4.9	-15.2	12.7
Total	**0.6**	**0.2**	**0.7**	**-0.8**	**-13.2**	**9.2**

Source: MTI, SingStat, SAC Capital

	2019	2019 Q4	2020 Q1	2020 Q2	2020 Q3
Financial Indicators					
S$ Exchange Rate Against: (end-period)					
US Dollar	1.3472	1.3472	1.4247	1.3932	1.3692
Sterling Pound	1.7686	1.7686	1.7583	1.7143	1.7576
100 Japanese Yen	1.2398	1.2398	1.3142	1.2931	1.2965
Euro	1.5094	1.5094	1.5710	1.5658	1.6059
Interest Rates (end-period, % p.a.)					
Prime Lending Rate	5.25	5.25	5.25	5.25	5.25
3-Month Fixed Deposit Rate	0.20	0.20	0.24	0.18	0.14
1-year Treasury Bills Yield	1.73	1.73	0.83	0.28	0.29
Government Budget					
Operating Revenue (S$ mil)	75,299	15,785	17,783	8,660	17,164
Total Expenditure (S$ mil)	76,047	18,800	26,781	18,448	18,424
Operating Expenditure	57,987	15,284	20,430	14,835	16,049
Development Expenditure	18,060	3,516	6,351	3,613	2,376
Balance of Payments					
Current Account Balance (S$ mil)	86,132	19,601	16,115	17,869	22,912
Goods Balance	133,678	31,938	26,916	30,323	32,075
Services Balance	7,863	1,311	1,689	3,447	3,662
Primary Income Balance	-46,843	-11,612	-10,563	-13,656	-10,551
Secondary Income Balance	-8,566	-2,037	-1,927	-2,245	-2,274
Capital & Fin Account Balance (S$ mil)	95,001	15,106	9,839	-28,280	9,472
Direct Investment	-98,468	-25,669	-14,614	-19,436	-13,886
Portfolio Investment	137,751	26,884	11,539	14,740	22,572
Financial Derivatives	14,105	5,301	5,143	4,064	4,095
Other Investment	41,613	8,590	7,771	-27,648	-3,309
Overall Balance (S$ mil)	-11,443	3,531	6,996	45,276	14,253

Source: MAS, MTI, singstat, SAC Capital

Singapore IPO Market Summary

Company	Listing Date	IPO Price	1D Return	YTD Return	Market
G.H.Y Culture & Media Holdings Co., Limited	18 Dec 2020	S$ 0.660	+0.79%	-1.52%	Mainboard
Aedge Group Limited	14 Dec 2020	S$ 0.200	+5.00%	+2.50%	Catalist
Credit Bureau Asia Limited	3 Dec 2020	S$ 0.930	+15.05%	+9.68%	Mainboard
Nanofilm Technologies International Limited	30 Oct 2020	S$ 2.590	+12.36%	+65.25%	Mainboard
Singapore Paincare Holdings Limited	30 Jul 2020	S$ 0.220	-4.55%	-2.27%	Catalist
Southern Alliance Mining Ltd.	26 Jun 2020	S$ 0.250	+8.00%	+32.0%	Catalist
United Hampshire US REIT	12 Mar 2020	US$ 0.800	-20.00%	-20.00%	Mainboard
Memiontec Holdings Ltd.	5 Mar 2020	S$ 0.225	+11.11%	0.00%	Catalist
Don Agro International Limited	14 Feb 2020	S$ 0.220	+9.09%	+61.36%	Catalist
Elite Commercial REIT	6 Feb 2020	GBP$ 0.680	+4.41%	-2.21%	Mainboard
Resources Global Development Limited	31 Jan 2020	S$ 0.200	+10.00%	+10.00%	Catalist

As at 21 December 2020
Source: SGX, SAC Capital

Emerging Trends in 2020

It has been a year since the first case of the Coronavirus and the pandemic has accelerated economic and societal changes. In many ways, the world has seen restructuring in the way we live and work.

Work-from-home & Hybrid work policies

The pandemic has imposed lockdowns globally, causing a shift in work arrangements, forcing people to work-from-home ("**WFH**"). In a Gartner global survey, it was found that 88% of business organisations mandated or encouraged employees to work from home since Covid-19 started, and 97% of organisations cancelled all work-related travel.

Now, despite some stabilisation of the situation in many cities, companies worldwide are still opting for some form of hybrid working policies. Some multinational companies that announced flexible working policies include Microsoft, Google, Uber, American Express, Airbnb and Standard Chartered.

In Singapore, the circuit breaker from April 7 to June 1 also saw Singapore's workforce transitioning to WFH. Since the gradual lifting of restrictions, local banks in Singapore such as DBS and UOB have made some form of flexi-work permanent post-Covid-19.

Source: The Straits Times

In relation to this, the demand for office spaces has decreased as increasingly many companies are opting for smaller office spaces, as their employees are spending a significant portion of their time working from home. Occupancy ratios of office spaces would be expected to fall with a decline in demand.

In a Cushman & Wakefield report, leasing activity for Grade A offices in Singapore came to a standstill during circuit breaker period and continued to lag in Q3 2020. Grade A Central Business District rental fell 5.1% quarter-on-quarter in Q3. In addition, tenants are seeking shorter-term renewals.

In Singapore, work-from-hotel and work-from-airport packages have emerged as WFH employees seek a new environment away from home due to factors such as the inability to concentrate within a small or noisy space.

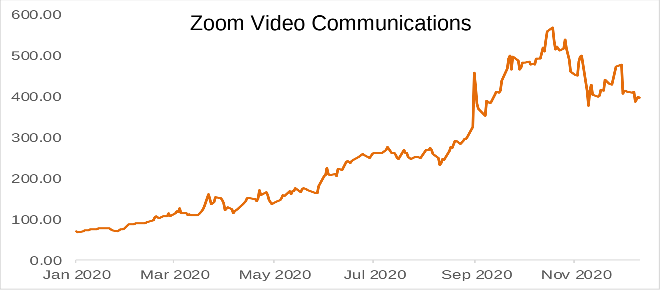
According to McKinsey Insights, there could be up to 3 or 4 times as many people working from home in the future than before the pandemic. This would have a large impact on urban economies, transportation, and consumer spending, among other things. Even with the progress of vaccine companies such as Moderna and Pfizer-BioNTech, many companies are still adopting flexible work-from-home policies, giving an indication this shift is expected to sustain in the long-run as long as Covid-19 persists, or even become permanent.

Online communication

The shift towards online communication goes in tandem with WFH. Over the past few months, many has been gradually finding the human touch with online video calls, which has now became the new normal.

Two key platforms for video call communication are Zoom and Microsoft Teams. According to Eric Yuan, Founder and CEO of Zoom, now that the world is familiar with video calling, communication and connecting of businesses would be changed forever. As more companies adopt a hybrid-work model, a deeper collaboration through online communication is necessary to bring productivity.

The share price of Zoom Video Communications Inc. (NASDAQ: ZM) has indeed zoomed up, to +477.7% YTD as at 12 December 2020 (YTD to all-time high: +727.0%).



Source: Bloomberg, SAC Capital

Emerging Trends in 2020

Similarly, Microsoft Teams saw a new daily record of 2.7 billion meeting minutes in one day in April, a 200% increase from 900 million on March 16. As at October, Microsoft Teams reported a 53.3% rise in Daily Active Users from April. This came even after a surge of users increasing 70% yoy from April.

In Singapore, online communication has also become prevalent. Apart from workplaces and schools shifting communication online, companies also saw their annual general meetings being held online. With the Covid-19 (Temporary Measures) Act passed in Parliament, annual general meetings and shareholder meetings have shifted to virtual platforms, and the option of virtual meetings have been extended until June 30, 2021.

Modern technology will be expected to drive the engine of change as communication platforms and tools emerge. People all around the world are realising that communication can still be effectively done online and users can connect faster than ever despite physical distance. The usage of online communication tools have continued to grow despite some stabilisation of the pandemic situation in many cities. Therefore, online communication is expected to sustain together with WFH policies.

Closing of brick-and-mortar retail stores

The slew of global retail business closures have gotten increasingly large in 2020. With lower sales and demand, tenants become less able to pay rent and other overheads, leading to shutting of doors. Multinational companies like Microsoft announced the permanent closure of their retail stores globally after taking a US$450 million hit.

As a result of the impact on the retail sector, a decrease in the retail sector rental rates may result with landlords needing to boost vacancy rates. S&P Global reported significant cash flow volatility for retail-focused REITs in the 2nd and 3rd quarters of 2020 resulted from rent deferrals, increased bad debt expense, and retail bankruptcies. The situation is made worse as differing accounting methods and management discretion could obfuscate cash rents.

S&P Global expects significant cash flow volatility for global retail REITs in 2020 followed by a gradual recovery starting in 2021. However, the recovery will be bumpy with elevated rent deferrals, write-offs, and store closures. There would be greater headwinds and more retailers could face bankruptcies and higher write-offs, leading to lower retail rental demand, which could persist until demand picks up to pre-Covid levels.

However, KPMG sees it as an acceleration of business model evolution with Covid-19, where the focus now shifts to value of purpose, cost reduction and increase in power of consumers. Many retailers are looking to online stores to grow their sales, which is more cost efficient as online businesses eradicate the high costs of rental. Globally, online ecommerce websites, such as Shopify, also saw a surge in demand for their platforms. It has a unique playing field which targets entrepreneurs as it allows even new users to seamlessly sell their products online. In Q3 2020, Shopify reported a 96% increase in revenue compared to last year.

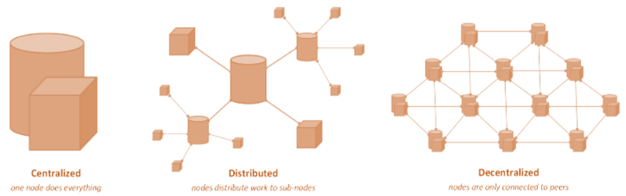
Source: The Straits Times

In Singapore, The Straits Times reported that retail business closures had hit a 10-month high in September. Even after a 162-year history, Robinsons departmental store had closed its doors in October. Local and international brands are going into online platforms such as Shopee and Lazada to grow their businesses. Shopee had reported 70% more new brands opening Official Stores on their Shopee Mall this year. In Q2 2020, Shopee booked a 130% increase in transactions and now has over 10 million sellers and 15,000 brand partners.

According to Cushman and Wakefield, more closures can be expected. The trend to brick-and-mortar store closures may be permanent as more retailers shift towards online platforms instead.

Emerging Trends in 2020

Blockchain and data storage



Source: Hacker Noon, SAC Capital

Blockchain is a decentralised ledger of transactions happening across a peer-to-peer network. Decentralised cloud storage is a term that means data is not kept on one particular centralised server, but rather, it is divided into multiple pieces, and stored in systems across the network. These systems or computers are called nodes, and each node has a copy of the blockchain.

Decentralised cloud storage differs from centralised cloud storage as blockchain provides for an encrypted, scalable and secure way to store private data, which makes it suitable for record management activities. On the other hand, centralised cloud storage aims for higher speed and availability for users. However, the issue with privacy is a big trade-off for centralised cloud storage. Many cloud storage companies like Google and Amazon have been suspected of giving away private data due to its lack of encryption which meant that data may be subject to manipulation.

According to Gartner, there is a need for improved data storage and management over data use by organisations and third parties. Juniper Research reported that cybercrime attacks cost businesses over $2 trillion in total in 2019. Equifax's 2017 data breach led to it incurring costs of up to US$400 million and fines of around US$650 million. Facebook-Cambridge Analytica's data scandal in 2018 saw up to 87 million users getting their data leaked. There is an increasingly urgent need for the shift towards ethical data storage. Working from home further exacerbates this shift. Since blockchains are write-only data structures with no administrative permissions for editing or deleting of the data, it allows for safe storage of data files.

The global data storage market was US$30.7 billion in 2017, and is expected to reach US$88.9 billion by 2022, rising at a CAGR of 23.7%. With the growing number of data breaches, we expect a shift from traditional approaches of data storage to decentralised data storage.

In Singapore, the use of blockchain, specifically, smart contracts in the education sector allow students to have higher levels of control of access to their education qualifications. With the student's blockchain ID, universities and employers are able to check their qualifications faster and more securely. Likewise, in the healthcare sector, SGInnovate, Singapore's government-owned deep technology development firm, has invested in MediLOT Technologies, a Singapore-based blockchain and healthcare analytics start-up. This is with the aim of building on patients' centricity, privacy, and equitable data sharing.

Blockchain will be pivotal to the decentralised cloud storage industry. With the high number of cases of data breaches, many organisations worldwide are placing higher focus on security and privacy. Increasingly many industries have seen a higher take-up rate for decentralised cloud storage, including banking and finance, healthcare and education. This is in line with the goal to digitise health records, academic records and clients' information, among other uses. As blockchain allows for a permanent record of data that cannot be tampered with, organisations see it as an attractive choice for data storage.

Singapore Outlook 2021

The Covid-19 pandemic crisis is expected to have a lingering effect on the world's economy beyond 2020. While global economy is expected to return to growth in 2021, the pace of recovery will depend very much on the effectiveness of the vaccine and the global fight against the Covid-19 virus. Lurking behind the pandemic crisis, geopolitical tensions, such as the US-China situation and the BREXIT progress, are also going to play a major part in shaping the global economy. Nonetheless, the Singapore economy is expected to grow by "4.0% to 6.0%" in 2021 spurred on by improved outlook and expansion of the trade and manufacturing sectors as well as a gradual recovery in the construction, aviation and tourism sectors.

Of the list of companies that we have initiated coverage with ratings on in 2020, we would like to highlight the following which we like, as they have remained relatively resilient during the pandemic crisis and are poised for growth when the economy recovers. We also prefer them for their resilient cash flows and attractive valuation: Megachem Limited (BUY, TP: S$0.500, Upside: +64.0%), Koufu Group Limited (BUY, TP: S$0.800, Upside: +16.8%), Hyphens Pharma International Limited (BUY, TP: S$0.390, Upside: +16.7%), UMS Holdings Limited (BUY, TP: S$1.26, Upside: +22.3%).

SAC’s Recommendation List

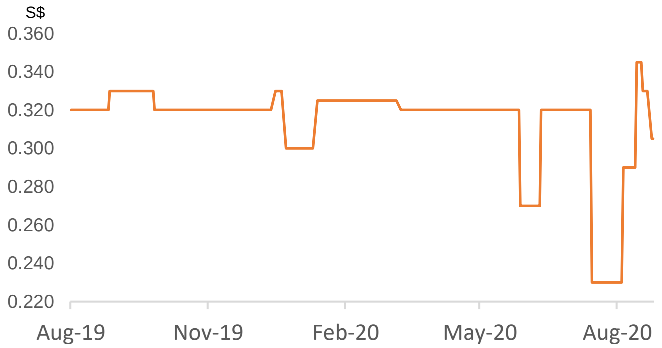
Megachem Limited

Date: 26 August 2020

BUY
(Maintained)

Target Price: S$0.50 (+64%)

MGCM SP
Price: S$0.305 (as at 25 August 2020)



Share price	1M	3M	6M	1Y
Megachem Limited	32.6%	-4.7%	-6.2%	-4.7%
Catalist Index	14.5%	44.9%	25.5%	20.8%

Market capitalisation	S$40.7m	
Current Price	S$0.305	
Shares outstanding	133.3m	
Free Float	13.7%	
Major shareholders	Chew (Choon Tee Sidney) Chori Co., Ltd Tan Bock Chia	35.3% 30.0% 19.1%
Recommendation of other brokers	N/A	

Source: Company data, Bloomberg, SAC Capital

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Group's operations remained stable despite challenging 1H20

Slight decline in revenue due to COVID-19 pandemic. Megachem reported a 6.7% drop in revenue to S$52.0 million for 1H20. The slower sales were largely because of the imposed lockdown and restrictions on business operations by many countries brought about by the COVID-19 situation. Both segments reported lower sales for 1H20.

Geographically, sales to key markets of ASEAN and North Asia bore the brunt of the decrease, recording a 9.3% decline to S$33.2 million and a 16.8% decline to S$5.7 million for 1H20 respectively. This was partially offset by higher sales in Europe, Middle East, Australia and America.

Net profit surged 39.9% for 1H20 to S$2.8 million. Despite a fall in revenue, the Group reported a higher net profit on the back of a surge in other income and higher contribution from associated companies. Other income increased due to higher grant income, net foreign exchange gain, fair value gain from listed equity security and higher bad debt recovered while the Group's share of profit of associated companies rose as a result of higher demand for cleaning chemicals due to the COVID-19 situation. The Group had proposed an interim dividend of 0.5 Scents per share for 1H20.

Diversified business model cushioned impact. In 1Q20, business in China was significantly impacted as the country started to impose lockdown and quarantine measures, but the impact was mitigated by Megachem's geographical diversity as most of the other market segments experienced growth in sales. In fact, 1Q20 experienced a 3.4% y-o-y sales growth. In 2Q20, as COVID-19 started to affect the other markets, a gradual return to normal in China accompanied by the pent-up demand built up in the first quarter as well as the Group's diversified industry range helped to soften the impact on the Group.

Maintain BUY. Megachem is currently trading at 9.1x our FY20F P/E, which is a discount compared to the sector average of 16.1x. Given the Group's resilient diversification business model and the gradual return of businesses arising from the easing of containment measures around the world, we believe that our estimates are well achievable. At this point, we maintain our BUY rating and target price at S$0.50 per share while we monitor the impact of the COVID-19 pandemic.

Key risks: Macroeconomic volatility brought about by the trade war & Covid-19.

Key Financials

Year ended December	FY2016	FY2017	FY2018	FY2019	FY2020F	FY2021F
Revenue (S$ million)	99.8	108.1	117.9	113.8	112.6	117.2
Growth	-9.8%	8.4%	9.0%	-3.5%	-1.0%	4.0%
Gross profit (S$ million)	25.3	26.6	29.4	28.2	28.4	29.8
Gross profit margin	25.3%	24.6%	25.0%	24.8%	25.2%	25.4%
Profit/(loss) before tax (S$ million)	3.6	5.2	5.4	5.0	5.9	5.4
Profit/(loss) before tax margin (S$ million)	3.7%	4.8%	4.6%	4.4%	5.2%	4.6%
Net Profit attributable to owners (S$ million)	2.0	4.2	4.1	3.8	4.5	4.1
EPS/(LPS) (cents)	1.53	3.18	3.06	2.88	3.35	3.09
P/E (x)	19.9	9.6	10.0	10.6	9.1	9.9
Net Debt/Equity	0.09	0.16	0.15	0.07	0.13	0.13
Dividend (cent)	1.2	1.2	1.5	1.5	1.5	1.4
Dividend yield	3.9%	3.9%	4.6%	4.3%	4.9%	4.6%

Source: Company data, SAC Capital

Group's operations remained stable despite challenging first half

Revenue Breakdown By Segment

Revenue breakdown (S$mil)	1H20	2H19	1H19
Distribution	**50.5**	55.9	54.1
Manufacturing	**1.6**	2.1	1.7
Total	**52.0**	58.0	55.8

Source: SAC Capital, Company data

Revenue Breakdown By Geography

Revenue breakdown (S$mil)	1H20	2H19	1H19
ASEAN	**33.2**	37.0	36.6
North Asia	**5.7**	8.8	6.8
Europe	**5.0**	4.4	4.9
Middle East	**3.5**	3.1	2.3
South Asia	**2.0**	2.3	3.4
Australia	**2.3**	2.3	1.8
America	**0.1**	0.1	0.1

Source: SAC Capital, Company data

Slight decline in revenue due to COVID-19 pandemic. Megachem reported a 6.7% drop in revenue to S$52.0 million for 1H20. The slower sales were largely because of the imposed lockdown and restrictions on business operations by many countries brought about by the COVID-19 situation. Both segments reported lower sales for 1H20, in which the Distribution segment recorded a 6.7% fall to S$50.5 million while the Manufacturing segment recorded a 6.7% fall to S$1.6 million.

Geographically, sales to key markets of ASEAN and North Asia bore the brunt of the decrease, recording a 9.3% decline to S$33.2 million and a 16.8% decline to S$5.7 million for 1H20 respectively. This was partially offset by higher sales in Europe, Middle East, Australia and America.

Net profit surged 39.9% for 1H20 to S$2.8 million. Despite a fall in revenue, the Group reported a higher net profit on the back of a surge in other income and higher contribution from associated companies. Other income increased by 371.0% to S$1.1 million for 1H20 due to higher grant income, net foreign exchange gain, fair value gain from listed equity security and higher bad debt recovered while the Group's share of profit of associated companies rose 86.2% to S$0.9 million as a result of higher demand for cleaning chemicals due to the COVID-19 situation. Overall, Megachem achieved a higher net profit after tax of 39.9% to S$2.8 million as compared to S$2.0 million from a year ago. The Group had proposed an interim dividend of 0.5 Scents per share for 1H20.

Diversified business model cushioned impact. In 1Q20, business in China was significantly impacted as the country started to impose lockdown and quarantine measures, but the impact was mitigated by Megachem's geographical diversity as most of the other market segments experienced growth in sales. In fact, 1Q20 experienced a 3.4% y-o-y sales growth. In 2Q20, as COVID-19 started to affect the other markets, a gradual return to normal in China accompanied by the pent-up demand built up in the first quarter as well as the Group's diversified industry range helped to lessen the impact felt by the Group.

Maintain BUY. Megachem is currently trading at 9.1x our FY20F P/E, which is a discount compared to the sector average of 16.1x. Given the Group's resilient diversification business model and the gradual return of businesses arising from the easing of containment measures around the world, we believe that our estimates are well achievable. Nonetheless, as we continue to monitor the impact of the Covid-19 virus, we may need to adjust our forward assumptions. At this point however, we maintain our BUY rating and target price at S$0.50 per share.

Company background

Megachem started its operation in Singapore in 1988. Within a year, the company expanded into Malaysia. Since then, the company has been spreading its wings globally. Listed on the Singapore Stock Exchange in 2003, Megachem is today the leading chemical player in Singapore and the region with presence in 11 countries and reaches more than 30 countries around the world. The company offers one-stop specialty chemical solutions, providing integrated value-added services including contract manufacturing that tailors to customers' needs and distribution. In 2016, its associated company, Megachem (Thailand) Public Co Ltd made its IPO debut on the Stock Exchange of Thailand.

Core businesses:

(1) Chemical Distribution

Megachem distributes and sells over 1,500 different types and grades of specialty chemicals to more than 2,000 companies in diverse industries. These include polymerization, paint and ink coatings, adhesives, construction, electronics, rubber and plastics, photographic, food and beverage, flavor and fragrance, pharmaceutical, industrial cleaning, metal finishing, water treatment, personal care as well as oil and gas industry. The majority of Megachem's customers are formulators who buy specialty chemicals as part of their intermediate manufacturing or processing requirements, or applicators and end-users. Chemical distribution contributed 97.6% of the total sales in 2017.

Source: Company data

(2) Contract Manufacturing

Contract manufacturing division provides its customers with a one-stop integrated solution by (i) freeing up its customers' production capacity and (ii) providing a platform for its customers to penetrate into Asia without heavy investment in production facilities and logistics. Megachem is one of the leading chemical contract manufacturers in Singapore with a 49,000 square feet manufacturing facility. Many of its multinational customers rely on its highly sophisticated mixing and precision-blending services.

Source: Company data

Megachem's business model

Source: Company data

Income Statement (S$ m)

FYE Dec	FY2016	FY2017	FY2018	FY2019	FY2020F	FY2021F
Revenue	**99.8**	**108.1**	**117.9**	**113.8**	**112.6**	**117.2**
Less: Cost of sales	(74.5)	(81.5)	(88.4)	(85.4)	(84.3)	(87.4)
Gross Profit	**25.3**	**26.6**	**29.4**	**28.2**	**28.4**	**29.8**
Other operating income	0.7	2.5	0.4	0.6	1.4	0.5
Distribution costs	(14.6)	(15.8)	(15.7)	(15.5)	(16.0)	(16.6)
Administrative expenses	(5.0)	(5.1)	(5.3)	(5.5)	(5.3)	(5.5)
Other operating expenses	(2.7)	(3.4)	(3.5)	(2.9)	(2.9)	(3.0)
Finance expenses	(0.6)	(0.5)	(0.8)	(1.0)	(1.0)	(1.0)
Share of profit from Associates	0.6	0.8	0.8	1.1	1.2	1.3
Profit before tax	**3.6**	**5.2**	**5.4**	**5.0**	**5.9**	**5.4**
Tax expenses	(1.4)	(1.0)	(1.1)	(1.0)	(1.2)	(1.1)
Profit after tax	**2.2**	**4.2**	**4.3**	**4.0**	**4.7**	**4.3**
Non-controlling interests	(0.2)	0.0	0.2	0.1	0.2	0.2
Profit/(loss) attributable to owners of company	**2.0**	**4.2**	**4.1**	**3.8**	**4.5**	**4.1**
Earnings/(loss) per share:	1.53	3.18	3.06	2.88	3.35	3.09

Cash Flow Statement (S$ m)

FYE Dec	FY2016	FY2017	FY2018	FY2019	FY2020F	FY2021F
Profit/(Loss) for the year	**2.2**	**4.2**	**4.3**	**4.0**	**4.7**	**4.3**
Depreciation & amortisation	1.5	1.2	0.9	1.3	1.2	1.4
Change in working capital	(0.1)	(4.2)	(2.5)	1.5	0.3	(1.4)
Others	(0.1)	(2.3)	(0.1)	(0.2)	0.6	(0.4)
Net Cash (used in)/ from operations	**3.5**	**(1.1)**	**2.6**	**6.6**	**6.1**	**3.9**
Purchase of PPE	(0.5)	(0.6)	(0.7)	(0.5)	(0.9)	(0.9)
Others	2.8	0.4	0.7	0.7	0.0	0.0
Net Cash (used in)/ from investing	**2.3**	**(0.2)**	**0.0**	**0.3**	**(0.9)**	**(0.9)**
Net increase in debt	(2.8)	1.4	2.9	(1.4)	0.0	0.0
Dividend paid	(1.8)	(1.7)	(1.9)	(1.8)	(2.1)	(2.0)
Others	(0.6)	(0.5)	(0.7)	(0.9)	(1.0)	(1.0)
Net Cash (used in)/ from financing	**(5.2)**	**(0.8)**	**0.3**	**(4.1)**	**(3.1)**	**(3.0)**

Balance Sheet (S$ m)

FYE Dec	FY2016	FY2017	FY2018	FY2019	FY2020F	FY2021F
PPE	11.4	10.9	10.7	10.3	9.9	9.6
Right of use assets	0	0	0	2.8	3.1	3.5
Investment in associates	3.1	5.5	5.8	6.6	7.8	9.2
Others	0.1	0.4	0.4	0.5	0.5	0.5
Total non-current assets	**14.7**	**16.8**	**16.8**	**20.0**	**21.4**	**22.8**
Inventories	20.4	23.9	26.1	25.4	24.5	25.5
Trade and other receivables	24.2	27.7	24.1	22.9	23.3	24.2
Others	2.4	2.2	2.5	2.6	2.6	2.6
Cash and bank balances	11.6	9.3	12.2	14.9	16.9	16.9
Total current assets	**58.5**	**63.1**	**64.9**	**65.9**	**67.4**	**69.3**
Total assets	**73.2**	**79.9**	**81.7**	**86.2**	**88.5**	**91.3**
Trade and other payables	13.0	15.6	12.0	12.1	11.9	12.4
Borrowings	12.4	14.6	18.2	17.6	17.6	17.6
Others	0.1	0.4	0.2	0.6	0.6	0.6
Total current liabilities	**25.5**	**30.6**	**30.5**	**30.3**	**30.1**	**30.5**
Borrowings	2.9	2.1	1.3	0.9	0.9	0.9
Others	0.0	0.0	0.0	2.6	2.6	2.6
Total non-current liabilities	**2.9**	**2.1**	**1.3**	**3.4**	**3.4**	**3.4**
Share Capital	15.9	15.9	15.9	15.9	15.9	15.9
Retained earnings	30.6	33.3	35.5	37.6	40.1	42.3
Other reserve	(4.5)	(4.5)	(4.2)	(3.9)	(3.9)	(3.9)
Total shareholder's equity	42.0	44.6	47.2	49.6	52.1	54.4
Non-controlling interests	2.8	2.6	2.8	2.8	2.9	3.0
Total equity	**44.8**	**47.2**	**49.9**	**52.4**	**55.0**	**57.4**

Ratios

FYE Dec	FY2016	FY2017	FY2018	FY2019	FY2020F	FY2021F
Profitability (%)						
Gross profit/(loss) margin	25.3	24.6	25.0	24.8	25.2	25.4
Profit/(loss) before tax margin	3.7	4.8	4.6	4.4	5.2	4.6
Net margin	2.2	3.9	3.6	3.5	4.1	3.7
Liquidity (x)						
Current ratio	2.3	2.1	2.1	2.2	2.2	2.3
Quick ratio	1.5	1.3	1.3	1.3	1.4	1.4
Interest coverage ratio	7.5	10.8	8.2	5.9	6.8	6.3
Net Debt to Equity (%)	8.4	15.5	14.6	6.8	2.7	2.6
Valuation (x)						
P/E	19.9	9.6	10.0	10.6	9.1	9.9
P/B	0.9	0.9	0.8	0.8	0.7	0.7
Returns (%)						
Return on equity	4.8	9.8	8.9	7.9	8.8	7.7
Return on asset	2.7	5.5	5.0	4.6	5.1	4.6
Dividend payout ratio	78.4	37.7	45.7	45.1	45.0	45.0

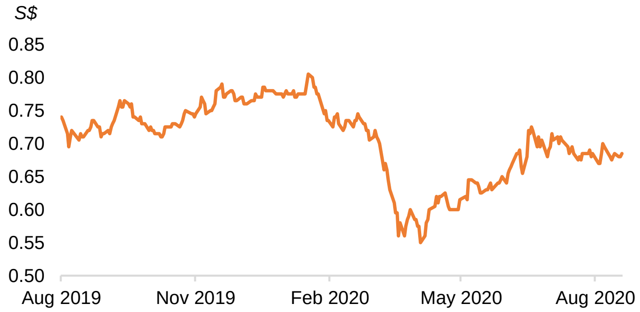
Koufu Group Limited

Date: 20 August 2020

BUY
(Maintained)

Target Price: S$0.800 (+16.8%)

VL6.SI
Price: S$0.685 **(as at 19 August 2020)**



Share price	1M	3M	6M	1Y
Koufu Group Limited	0.0%	8.7%	-6.8%	-4.9%
Straits Times Index	-2.1%	-0.8%	-20.3%	-18.1%

Market Capitalisation	S$379.9 million
Current Price	S$0.685
Shares Outstanding	554.6 million
Free Float	22.7%
Major Shareholder	Jun Yuan Holdings Pte. Ltd. 77.2%[1]
Recommendation of other brokers	3 Buy 1 Add

[1]Mr. Pang Lim and Mdm. Ng Hoon Tien are deemed to be interested in 428,048,800 shares held by Jun Yuan Holdings Pte. Ltd. pursuant to Section 4 of the Securities and Futures Act ("SFA") and 150,000 shares held by their son, Pang Xue Ru pursuant to Section 133(4)(a) of the SFA.

Source: Company data, Bloomberg, SAC Capital

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Recovery in Sight

COVID-19 impacted 1HFY20 earnings. 1HFY20 revenue fell 23% to S$89.0m, due to the lockdown in April and May that decimated businesses at the eating places. Net profit fell by a larger 82% to S$2.5m, aided by S$5.1m job support grant and rental rebates from the landlords.

Recovery in sight from 3QFY20. We expect progressive recovery in 2HFY20 due to: 1) gradual easing of mobility from June, allowing more dine-in patrons per table; 2) acquisition of Deli Asia from July which enable Koufu to move up the food value chain to include food manufacturing and processing; and 3) completion of the integrated facility in 4QFY20 which add kitchen capacity and enables Koufu to extend the cloud kitchen concept to other food operators.

Strong balance sheet. As at end June 2020, it has net cash of S$72.0m. Acquisition of Deli Asia[1] for S$22.04m in July 2020 is funded through internal resources, which include the net proceeds from IPO previously. Net cash is expected to decrease as a result. However, cash holdings could rise as Koufu looks to dispose off the two existing central kitchens when the integrated facility is operational. Despite a 1HFY20 EPS of 0.45 cents, Koufu is paying an interim dividend of 0.5 cents per share.

Focus on local expansion. After the expansion of R&B bubble tea in Indonesia in July 2020, Koufu will add one food court each in Singapore in Q3 and Macau in Q4. All overseas expansion plans has been put on hold.

Maintain BUY rating, lower fair value to S$0.80 (from S$0.87). Our DCF-derived target price translates into a FY21E P/E of 12.9x. Though we expect significantly lower net profit in FY2020, with the upcoming integrated facility, synergies from Deli Asia, and plans for future expansion, we remain positive that Koufu Group will recover, beyond FY2020. Our target price implies a 16.8% upside to the last traded price.

Key Risks: Uncertain economy, food delivery competitors, and ability to successfully integrate the acquisition of Deli Asia.

[1] Refer to page 2 for details

Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue (S$'000)	223,840	237,507	200,814	249,731	259,871
% Growth	3.3%	6.1%	-15.4%	24.4%	4.1%
Profit/(loss) before tax (S$'000)	29,431	33,958	21,837	41,991	48,686
Profit/(loss) before tax margin	13.1%	14.3%	10.9%	16.8%	18.7%
Profit/(loss) attributable to owners (S$'000)	24,509	27,688	17,900	34,420	39,908
EPS (Singapore cents)	4.75	4.99	3.23	6.21	7.20
P/E (x)	15.5	13.6	21.2	11.0	9.5
P/B (x)	4.2	3.7	3.4	2.9	2.5
Net Debt/Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

^EPS is computed based on the profit from continuing operations attributable to owners of the company divided by total shares outstanding
*Singapore Financial Reporting Standards (International) ("**SFRS(I)**") SFRS 16 has been implemented in FY2019.*

Investment Highlights

1HFY20 NPAT fell 82.0% YoY

Koufu saw a 23.2% decline in revenue from S$115.9 million in 1HFY2019 to S$89.0 million in 1HFY20 due to COVID-19 pandemic, which led to a 2-month circuit breaker in Singapore during 2Q2020. The decrease in revenue was partially offset by an increase in government grants of S$5.1 million to support wages and property tax rebates extended by landlords. As a result, despite taking a substantial hit, net profit remained positive.

Business Overview:

Koufu is an established Singapore household name known for its chain of food courts and coffee shops under management, offering food options to the mass market. Since 2002, Koufu has expanded quickly over the years by opening numerous outlets and launching new food and beverage brands and established presence into Malaysia, Indonesia and Macau.

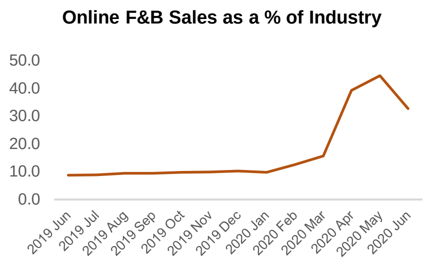
Despite being able to continue operating under the ambit of being an essential service, Koufu said some of its food courts had been impacted by "significantly lower" footfall. The group had previously suspended the operations of 10 food courts (out of 48), 3 quick-service restaurants (out of 7) and two full-service restaurants (out of 4) temporarily due to low footfall, in order to reduce operating costs. With the government's Job Support Scheme and foreign worker levy waiver, as well as rental relief from its landlords, Koufu remained profitable. With its operations focusing on the mass market segment, we expect a recovery from 2HFY20 as operations gradually resume.

Acquisition of Deli Asia

Koufu Group's completed acquisition of Deli Asia Group (Deli Asia, DeliSnacks, Dough Culture and Dough Heritage) for $22.04 million will allow them to capture further the high takeaway market. Following this acquisition, Deli Asia Group is now a wholly-owned subsidiary of Koufu Group.

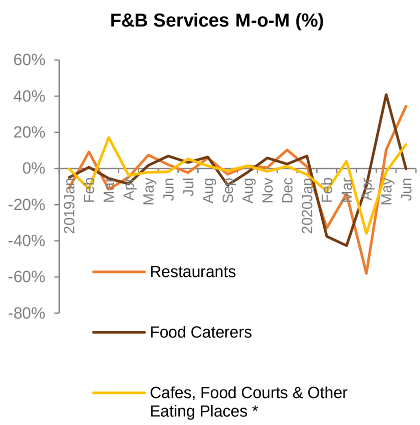
Deli Asia Group is principally involved in the business of the manufacture and production of fried food and dough products, supply of frozen and partial fried food products to third party businesses and retail of fried food and dough products under its Delisnacks and Dough Culture brands, respectively.

This vertical integration will be profitable in the future if Deli Asia can properly value-add to the current Koufu business. The Koufu Board believes that the business of the Deli Asia Group is complementary and will have synergistic effects as the Group will be able to develop its supply chain for its food and beverage retail business segment. The deal will also give Koufu immediate access to third-party businesses locally and overseas as well as provide opportunities to expand the F&B retail business to include frozen and partially fried food products to supermarkets and export markets. Koufu intends to expand the Dough Culture kiosk network from seven to at least 20 in the next five years. Once the integrated facility is completed, Koufu plans to gradually shift Deli Asia's production facilities and warehouse there. This will consolidate its food preparation and processing with Koufu's central kitchens to optimise economies of scale and operating synergies.



Source: SingStat

Source: Apple Store



Source: SingStat

"Koufu Eat" Mobile application

Fuelled by the Pandemic, Singapore's online F&B sales picked up significantly to account for 32.7% of total F&B sales in June 2020, from 8.7% a year ago. Noticing a change in consumption patterns among diners, the group has doubled down on efforts to improve its "Koufu Eat" mobile app to facilitate food deliveries. It has partnered banks, such as DBS on its cards/Paylah! Platforms to encourage consumers to download the app.

Koufu believes that this will also help to soften the impact on dine-in numbers with the limit on seating capacity at eating places. About 70 to 80 per cent of its stall tenants are already registered on the app.

However, the take up rate is still low – as at end July 2020, total reviews on Apple and Android app stores were about 1200 and 1500 respectively. More efforts is needed to push the digital initiative. Based on the reviews on the app, customers still prefer patronising physical outlets.

Recovery from 2HFY20

We believe Q2 felt the full brunt of the impact of COVID-19. As lockdown eased from June 2020, dine-out activities is picking up. Restaurant sales rose 35% in June over May, and café, food courts and other eating places were 13% higher. YOY however, both segments are still down 59% and 33% respectively. We expect the number of diners to continue to improve over the rest of the year as the virus spread is contained and consumer confidence recover.

We expect recovery in 2HFY20 due to: 1) gradual easing of mobility restrictions from June, allowing more dine-in patrons; 2) acquisition of Deli Asia from July 2020 which enables Koufu to move up the food value chain to include food manufacturing and processing; and 3) scheduled completion of the integrated facility in 4QFY20 to add kitchen capacity and allows the extension of cloud kitchen concept to other food operators.

We continue to believe that Koufu's strong balance sheet will help tide them through now and in the future. As of 30 June 2020, Koufu has net cash of S$72.0m, which makes up 73.5% of net assets.

Maintain BUY Rating at a lower target price of S$0.80

We maintain a BUY rating on Koufu Group but lower fair value to S$0.80 (from S$0.87). Our DCF-derived target price translates into a FY21E P/E of 12.9x. Though we expect significantly lower net profit in FY2020, with the upcoming integrated facility, synergies from Deli Asia, and plans for future expansion, we remain positive that Koufu Group will recover, beyond FY2020. Our target price implies a 16.8% upside to the last traded price.

Competitive Advantage

Integrated facility anticipated to be completed from 4QFY20 onwards

The Group's integrated facility is currently expected to be completed from the fourth quarter of 2020 onwards, from the initial schedule of second quarter. The integrated facility will comprise a larger central kitchen and its corporate headquarters. It serves to expand central procurement, preparation, processing and distribution functions. The new facility will bring the group's processing facilities under one roof. The integrated facility can better support all F&B Outlets and self-operated F&B stalls and aims to improve productivity and operational efficiency.

It expects a GFA of 20,000 sqm, more than 5 times larger than their current central kitchens and corporate headquarters, with a price tag of S$40.0 Million. With the facility, Koufu can better provide support for all F&B Outlets and self-operated F&B stalls. Up to 30% of total GFA will be rented out to their stallholders to build their own central kitchen.

Once the integrated facility is completed, Koufu plans to gradually shift Deli Asia's production facilities and warehouse there. This will consolidate its food preparation and processing with Koufu's central kitchens to optimise economies of scale and operating synergies.

Artist's impression of the completed integrated facility

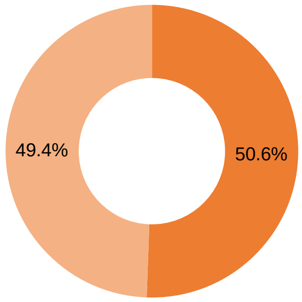
Koufu's Central Kitchen

Location	Tenure	Gross Floor Area	Lessor	Usage
18 Woodlands Terrace Singapore	30 years from 1 Jul 1994	1,297 m^2	JTC Corporation	Corporate HQ and central kitchen
20 Woodlands Terrace Singapore	30 years from 16 Dec 1993	2,193 m^2	JTC Corporation	Central kitchen
Woodlands Avenue 12	30 years from 1 Mar 2018	20,000 m^2	JTC Corporation	Integrated facility

Source: Company Data

Business Segments

Revenue Breakdown by Business Segment (FY2019)



Source: Company Data, SAC Capital

As at 30 June 2020, Koufu operates a multitude of brands at various locations, including 48 food courts, 18 coffee shops, 1 hawker centre, 1 commercial mall, 74 F&B stalls, 28 kiosks, 7 quick-service restaurants and 4 full-service restaurants in Singapore. In addition, Koufu operates 2 food courts, 4 F&B stalls and 1 kiosk in Macau, and 1 kiosk in Malaysia. The Group's operations are mainly classified under 2 complementary business segments, namely outlet & mall management, and F&B retail.

Outlet & Mall Management

The Group signs on leases averaging 3 to 4 years with property owners. These comprise food courts, coffee shops, hawker centre and commercial malls. As the master leaseholder, it then leases out food outlet premises to tenants for a term of 2 to 3 years. The group also provides cleaning and utilities services, and manages third party food courts.

The tenants at the food courts pay a fixed monthly rent, or a variable rent based on the stall's gross turnover. The tenants at the coffee shops pay a fixed monthly rental.

Koufu has enjoyed high occupancy rates of over 90% at the food outlets. We do not expect this to fall as the high footfall to the outlets helps in attracting and retaining tenants.

F&B Retail

This covers direct food retailing to consumers at the self-run F&B stalls, the majority of which are beverage stalls located in Koufu's own food courts, coffee shops and hawker centre. Also in this segment are Koufu's kiosks, Quick Service Restaurants and Full-Service Restaurants.

SAC CAPITAL

Income Statement

(S$'000)	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Revenue	223,840	237,507	200,814	249,731	259,871
Other income	5,331	5,723	10,074	6,099	6,099
Cost of inventories consumed	(35,063)	(36,917)	(27,031)	(39,360)	(41,115)
Staff costs	(36,894)	(39,901)	(38,732)	(48,167)	(50,123)
Depreciation of PPE and Investment Properties	(11,851)	(76,551)	(82,647)	(79,045)	(75,510)
Property rentals and related expenses	(105,073)	(42,520)	(28,114)	(27,470)	(28,586)
Distribution and selling expenses	(2,020)	(806)	(965)	(1,234)	(1,289)
Administrative expenses	(6,278)	(5,011)	(4,217)	(5,244)	(5,457)
Other operating expense	(2,946)	(4,204)	(4,016)	(9,990)	(11,875)
Results from operating activities	**29,046**	**37,320**	**25,166**	**45,320**	**52,015**
Finance income	424	851	851	851	851
Finance costs	(280)	(4,433)	(4,433)	(4,433)	(4,433)
Share of profit of associates and partnership, net of tax	241	220	253	253	253
Profit before tax	29,431	33,958	21,837	41,991	48,686
Tax expense	(4,955)	(6,122)	(3,937)	(7,570)	(8,777)
Profit for the year	24,476	27,836	17,900	34,420	39,908
Profit attributable to:					
Owners of the Company	24,509	27,688	17,900	34,420	39,908
Non-controlling interest	(33)	148	-	-	-
Profit for the year	**24,476**	**27,836**	**17,900**	**34,420**	**39,908**

Ratios

	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Adoption of SFRS 16 Leases increased lease liability in FY2019					
Profitability (%)					
Profit/(loss) before tax margin	13.1%	14.3%	10.9%	16.8%	18.7%
Profit/(loss) after tax margin	10.9%	11.7%	8.9%	13.8%	15.4%
Liquidity (x)					
Current ratio	2.0	0.9	1.1	1.0	1.1
Quick ratio	2.0	0.9	1.1	1.0	1.1
Interest coverage ratio	106.1	8.7	5.9	10.5	12.0
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	1.7	1.6	1.9	1.5	1.5
P/E	15.5	13.6	21.2	11.0	9.5
Core P/E at target price	18.2	16.0	24.8	12.9	11.1
P/B	4.2	3.7	3.4	2.9	2.5
P/NTA	4.2	3.7	3.4	2.9	2.5
Cash Conversion Cycle					
Trade receivable days	2	2	2	2	1
Inventory days	13	14	13	13	13
Trade payable days	43	40	48	38	37
CCC days	-27	-24	-32	-23	-22

Balance Sheet

(S$'000)	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Property, plant and equipment	21,383	209,989	205,913	235,162	242,598
Intangible assets	143	150	171	148	124
Investment properties	13,765	19,867	14,796	11,469	10,696
Other investments	1,600	1,600	1,600	1,600	1,600
Deferred tax assets	-	455	455	455	455
Trade and other receivables	11,329	10,434	10,434	10,434	10,434
Total non-current assets	**52,140**	**242,495**	**233,622**	**259,773**	**266,665**
Inventories	1,288	1,435	997	1,452	1,516
Trade and other receivables	10,158	9,955	8,503	10,574	11,003
Time deposits	35,000	4,600	4,600	4,600	4,600
Cash and cash equivalents	60,979	90,396	100,855	103,949	118,590
Total current assets	**107,555**	**106,386**	**114,954**	**120,574**	**135,710**
Total assets	**159,695**	**348,881**	**348,576**	**380,347**	**402,374**
Trade and other payables	46,021	41,179	31,924	46,485	48,558
Lease liabilities	-	63,250	63,250	63,250	63,250
Loans and borrowings	411	605	605	605	605
Current tax liabilities	6,009	6,019	6,019	6,019	6,019
Provision for reinstatement	1,329	1,524	1,524	1,524	1,524
Total current liabilities					
Trade and other payables	6,763	7,369	7,369	7,369	7,369
Lease liabilities	-	117,631	117,631	117,631	117,631
Loans and borrowings	4,364	4,113	4,113	4,113	4,113
Deferred tax liabilities	14	81	81	81	81
Provision for reinstatement	3,256	4,096	4,096	4,096	4,096
Total non-current liabilities	**14,397**	**133,290**	**133,290**	**133,290**	**133,290**
Total liabilities	**68,167**	**245,867**	**236,612**	**251,173**	**253,246**
Share capital	44,961	44,961	44,961	44,961	44,961
Foreign currency translation reserve	(287)	(389)	(389)	(389)	(389)
Treasury shares	-	(240)	(240)	(240)	(240)
Retained earnings	46,737	57,953	66,903	84,113	104,068
Equity attributable to owners of the Company	91,411	102,285	111,235	128,445	148,400
Non-controlling interest	117	729	729	729	729
Total equity	**91,528**	**103,014**	**111,964**	**129,174**	**149,129**
Total equity and liabilities	**159,695**	**348,881**	**348,576**	**380,347**	**402,374**

Cash Flows Statement

(S$'000)	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Profit for the year	24,476	27,836	17,900	34,420	39,908
Depreciation of PPE and Investment Properties	11,851	76,551	82,647	79,045	75,510
Finance cost	280	4,433	4,433	4,433	4,433
Finance income	(424)	(851)	(851)	(851)	(851)
Tax expense	4,955	6,122	3,937	7,570	8,777
Others	781	1,194	(191)	(146)	(146)
Change in working capital	(3,041)	881	(7,365)	12,035	1,579
Tax paid	(5,637)	(6,063)	(3,937)	(7,570)	(8,777)
Net cash generated from operating activities	**33,241**	**110,103**	**96,573**	**128,936**	**120,434**
Net investment in associates	85	221	-	-	-
Interest received	387	793	851	851	851
Payment for lease prepayment	(3,466)	-	-	-	-
Proceeds from disposals	755	513	-	-	-
Purchases	(18,994)	(26,969)	(73,582)	(105,050)	(82,256)
Others	(35,000)	31,535	-	-	-
Net cash from / (used in) investing activities	**(56,233)**	**6,093**	**(72,731)**	**(104,199)**	**(81,405)**
Net borrowings	8,833	(6,002)	-	-	-
Interest paid	(246)	(4,301)	(4,433)	(4,433)	(4,433)
Dividends paid	(18,052)	(12,210)	(8,950)	(17,210)	(19,954)
Net proceeds from IPO	45,462	-	-	-	-
Others	(5,127)	109,269	-	-	-
Net cash (used in) / from financing activities	**30,870**	**86,756**	**(13,383)**	**(21,643)**	**(24,387)**
Net increase/(decrease) in cash and cash equivalents	**7,878**	**29,440**	**10,459**	**3,094**	**14,641**
Effect of exchange rate fluctuations on cash held	58	(23)	-	-	-
Cash and cash equivalents	**60,979**	**90,396**	**100,855**	**103,949**	**118,590**

*Financial figures have not been adjusted to Singapore Financial Reporting Standards (International) ("**SFRS(I)**") and may not be comparable to the latest company financials*

Hyphens Pharma International Limited

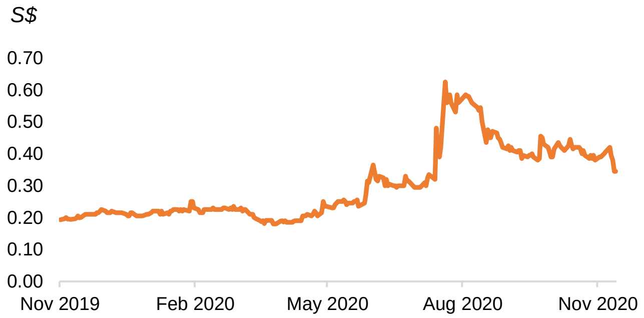
Date: 19 November 2020

BUY (Maintained)

Target Price: S$0.390 (+16.7%)

HYP SP

Price: S$0.335 (as at 18 November 2020)



Share price	1M	3M	6M	1Y
Hyphens Pharma	-20.2%	-23.0%	+36.7%	+59.5%
Catalist Index	-6.0%	-5.7%	+27.9%	+7.4%

Market Capitalisation	S$100.6 million
Current Price	S$0.335
Shares Outstanding	300.4 million
Free Float	22.0%
Major Shareholder	Inomed Holding Pte Ltd 65.31% Tan Chwee Choon 12.66%
Recommendation of other brokers	2 Buys

Source: Company data, Bloomberg, SAC Capital

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Q3 set-back, longer-term growth is priority

Product demand stays firm, but provisions dragged profits lower. 3QFY20 revenue rose 2.4% YoY to S$31.4m, led by 22.9% jump in sales for proprietary brands segment to S$4.4m. However, net profit fell 53.0% due to lower gross margins and write-down in inventory and unfavourable forex. In 9MFY20, Hyphens posted a 7.3% YoY increase in total revenue to S$93.1m and 5.4% increase YoY in net profit to S$5.1m.

Increasing focus on Proprietary Brands. Proprietary brands segment is a key driver for revenue growth and posted a 27.5% increase in sales in 9MFY20. Key products are dermatological products under Ceradan brand and nutritional supplements under Ocean Health brand. Hyphens have pumped more efforts into R&D. R&D spend rose 125.0% YoY for 9MFY20 to S$0.23 million (3QFY20 YoY growth: 1677.8%). We believe R&D spend will rise in the next 2 years, so will marketing and distribution expenses with its overseas expansion into Sri Lanka for the distribution of Ocean Health, and China for Ceradan. These initiatives will drive longer term earnings potential.

Revise our earnings estimates. We have revised revenue estimates (FY2020E -1.0%, FY2021E +2.5%, FY2022E +1.8%) to reflect greater optimism on penetration into the new markets for the proprietary products. We have also lowered net profit estimates (FY2020E -17.0%, FY2021E -18.5%, FY2022E -16.3%) to factor in higher R&D spend and marketing budget for these products. We expect overall gross margin to return to pre-Covid level of about 33%-34%.

Maintain BUY rating but lower fair value to S$0.39 (from S$0.54). Our DCF-derived target price translates into a FY21E P/E of 21.0x.

Key Risks: Product differentiation, foreign exchange uncertainty, supply chain disruption.

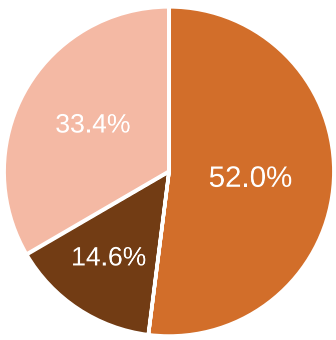
Key Financials

Year ended 31 Dec	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
Revenue (S$'000)	120,930	119,442	127,813	134,013	138,096
% Growth	7.3%	-1.2%	7.0%	4.9%	3.0%
Profit/(loss) before tax (S$'000)	7,000	7,987	7,946	6,753	7,788
Profit/(loss) before tax margin	5.8%	6.7%	6.2%	5.0%	5.6%
Profit/(loss) attributable to owners (S$'000)	5,410	6,530	6,744	5,585	6,441
EPS (Singapore cents)	1.95	2.17	2.24	1.86	2.14
P/E (x)	18.6	15.4	14.9	18.0	15.6
P/B (x)	2.6	2.3	2.2	2.0	1.9
Net Debt/Equity (%)	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash

*Singapore Financial Reporting Standards (International) ("**SFRS(I)**") SFRS 16 has been implemented in FY2019.*
In 9MFY20, Hyphens received a S$1.48 million in government grants mainly for COVID-19 support.

Investment Highlights

9MFY20 Revenue



Source: Company Data, SAC Capital

Business Overview:

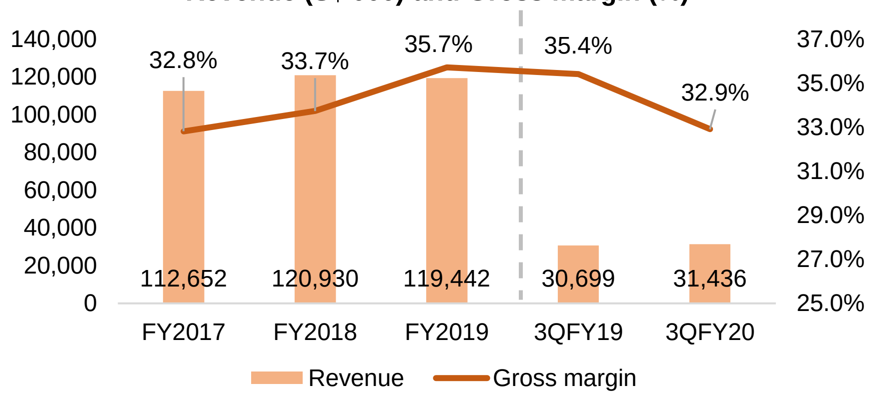
Hyphens Pharma International Limited is primarily engaged in the marketing, distribution and sales of specialty pharmaceutical products in countries in the ASEAN region. The Group also develops and sells a range of proprietary dermatological and health supplement products, which fall under its Proprietary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

3QFY20 revenue increased 2.4% YoY, but NPAT decreased 53.0% due to lower gross margins and higher provisions

3QFY20 revenue grew 2.4% YoY to S$31.4 million, led by higher sales in proprietary brands segment. Revenue from proprietary brands rose 22.9% due to higher demand for dermatological products under Ceradan® brand and nutritional supplements under Ocean Health® brand. Bottomline, however, was impaired by a S$645,000 charge for lower net realisable value for inventory and stock obsolescence, and S$217,000 for forex. 3QFY20 net profit fell 53.0% to S$0.8m. In 9MFY20, Hyphens posted a 7.3% YoY increase in total revenue to S$93.1m and 5.4% increase YoY in net profit to S$5.1m.

<u>Lower Gross Margins</u>

Revenue (S$'000) and Gross margin (%)



Source: Company Data, SAC Capital

3QFY20 gross margin was lower at 32.9% (3QFY19: 35.4%) with 1) lower margins at all segments, in particular medical hypermart and digital, which enjoyed a higher-margined tender supply contract in FY19, and 2) S$80,000 write-down in the value of its inventory of personal protective equipment.

1HFY20 gross margins were 1 ppt higher due to Covid-induced stockpiling by the retailers, and higher corporate orders for health supplements. With virus being contained, the buying pattern has normalised. We believe gross margins will stay at about 33%-34%.

<u>Other Losses</u>

Hyphens booked exceptional charge of S$0.9m in 3QFY20 for provision for inventory obsolescence (S$0.6m) and foreign exchange loss (S$0.2m). Provision was charged on 1) specialty pharma inventories with weaker demand from the lockdown in the Philippines (S$0.1m); 2) at medical hypermart for short shelf-life items such as flu vaccines (S$0.2m); and 3) Covid-19 diagnostic test kits (S$0.3m). Covid-19 testing is now centrally-managed by the Singapore authority, and domestic retail demand is limited. Hyphens looks to sell them in the overseas markets. Other gains (S$0.5m) would fall in FY2021 as government grants (job support scheme) taper off.

Increasing focus on Proprietary Brands

Revenue from proprietary brands segment rose 22.9% YoY in 3QFY20, from S$3.6 million to S$4.4 million. 9MFY20 revenue increased 27.5% YoY, from S$10.7 million to S$13.6 million. This was due to higher demand for dermatological products under Ceradan brand and nutritional supplements under Ocean Health brand.

Hyphens is placing more focus on its proprietary brands segment, with higher R&D costs incurred, growing 125.0% YoY for 9MFY20 to S$0.23 million (3QFY20 YoY growth: 1677.8%). We anticipate that this is just the start of higher R&D investment into the segment as it shift its focus to building core brands and increase outreach.

In line with this, Hyphens expanded its proprietary brands footprint overseas, namely the distribution of Ocean Health into Sri Lanka in August, and Ceradan into Mainland China in November. This is a step forward to tap into bigger markets outside Southeast Asia. Although we do not expect high increase in revenue in the short term, as brand and recognition and loyalty take time to build, we believe these ventures are strategic in the long-term.

We expect administrative expenses to increase with increased R&D costs for the next few periods in their bid to grow their proprietary brands segment. In addition, we expect distribution costs to increase with higher advertising and promotional expenses in their new markets, especially Mainland China.

As these products are developed, marketed and sold, gross margins from the proprietary brands segment is the highest out of the three segments.

Revise our earnings estimates

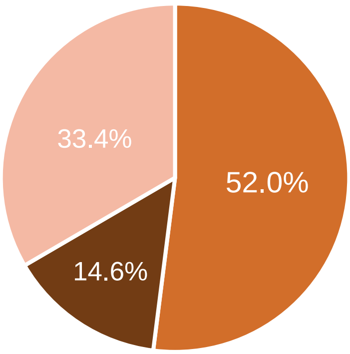
We have revised revenue estimates (FY2020E -1.0%, FY2021E +2.5%, FY2022E +1.8%) to reflect greater optimism on penetration into the new markets for the proprietary products. We have also lowered net profit estimates (FY2020E -17.0%, FY2021E -18.5%, FY2022E -16.3%) to factor in higher R&D spend and marketing budget for these products. We expect overall gross margin to return to pre-Covid level of about 33%-34%.

Maintain BUY rating at lower target price of S$0.39

We maintain a BUY rating on Hyphens Pharma, but lower fair value to S$0.39 (from S$0.54). Our DCF-derived target price translates into a FY21E P/E of 21.0x. Our target price implies a 16.7% upside.

Business Segments

9MFY20 Revenue



- Specialty Pharma Principals
- Proprietary Brands
- Medical Hypermart & Digital

Source: Company Data, SAC Capital

Hyphens is a leading specialty pharmaceutical and consumer healthcare group with a diverse geographical footprint. The Group's primary business is the marketing and sale of specialty pharmaceutical products in selected ASEAN countries through exclusive distributorships or licensing and supply agreements with brand principals. In addition, the Group develops, markets and sells its range of proprietary dermatological and health supplements under its Proprietary Brands segment, and also engages in the wholesale of pharmaceuticals and medical supplies in Singapore through wholly-owned subsidiary Pan Malayan Pharmaceuticals Pte Ltd.

The Group's businesses can be categorised into 3 segments:

a) Specialty Pharma Principals
b) Proprietary Brands
c) Medical Hypermart and Digital

Specialty Pharma Principals

*Selected Principals

Source: Company Data

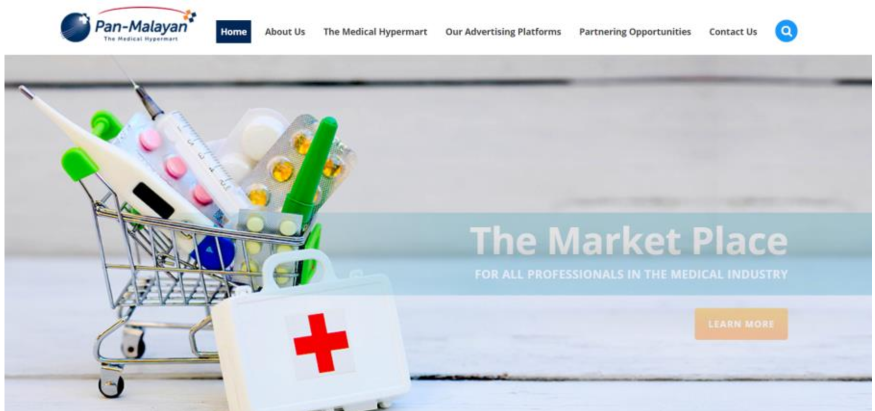
Hyphens markets and distributes specialty pharmaceutical products in ASEAN through distributorship or licensing agreements with brand principals mainly from Europe and the United States. Its core expertise is in the field of dermatology, pediatrics and neonatology, allergy, cardiology and radiology.

Proprietary Brands

Source: Company Data

The Group's proprietary products are mainly dermatological products and health supplements. Launched in 2011, Ceradan ® was the first product, which is a dermatological product targeted at eczema patients. It has extended the range to include TDF, a line of dermo-cosmetic products, and Ocean Health ® for health supplements, through the acquisition of Ocean Health ® Singapore in 2016. Ceradan ® Advanced was launched in July 2019. The procurement of CG 210 hair-loss product line in August 2020 makes it the latest addition to the Group's proprietary brands products.

Medical Hypermart and Digital



Source: Company Website

The Medical Hypermart is an online B2B platform for the wholesale of pharmaceutical and medical supplies in Singapore. It leverages on the network and industry presence of Pan Malayan, which has been operating in this business segment since late 1940s. Users of the platform include healthcare professionals, healthcare institutions and retail pharmacies. The platform also enables brand principals to publish product information and educational material that will raise awareness and brand profile among the medical professionals.

Geographical Footprint

The Group has a direct presence in Singapore, Indonesia, Malaysia, Philippines and Vietnam, as well as marketing and distribution networks in Bangladesh, Brunei, Cambodia, Hong Kong, Myanmar and Oman. With the partnership with SUTL HK, the Group seeks to target the markets in Hong Kong Special Administrative Region (“HK SAR”), Macau and Duty-Free Channels in China. In addition, Hyphens expanded Ocean Health distribution into Sri Lanka, and Ceradan into Mainland China in 2HFY20.

Income Statement

$'000	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Revenue	**120,930**	**119,442**	**127,813**	**134,013**	**138,096**
Cost of sales	(80,125)	(76,773)	(86,329)	(87,961)	(89,902)
Gross profit	**40,805**	**42,669**	**41,484**	**46,052**	**48,193**
Interest Income	54	157	126	50	65
Other income and gains	225	389	2,000	495	400
Distribution costs	(21,736)	(24,837)	(24,284)	(28,411)	(28,862)
Administrative expenses	(10,422)	(9,772)	(9,929)	(10,741)	(11,306)
Finance costs	(129)	(138)	(138)	(138)	(138)
Other losses	(1,797)	(481)	(1,311)	(554)	(565)
Profit before tax from continuing operations	**7,000**	**7,987**	**7,946**	**6,753**	**7,788**
Income tax expense	(1,590)	(1,457)	(1,202)	(1,168)	(1,347)
Profit, net of tax	**5,410**	**6,530**	**6,744**	**5,585**	**6,441**
Earnings Per Share (cents)					
Basic and Diluted	1.95	2.17	2.24	1.86	2.14

Ratios

	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Adoption of SFRS 16 Leases increased lease liability in FY2019					
Profitability (%)					
Gross profit/(loss) margin	5.8%	6.7%	6.2%	5.0%	5.6%
Profit/(loss) before tax margin	4.5%	5.5%	5.3%	4.2%	4.7%
Liquidity (x)					
Current ratio	1.8	2.0	1.9	2.0	2.1
Quick ratio	1.5	1.7	1.4	1.7	1.8
Interest coverage ratio	55.3	58.9	58.6	49.9	57.4
Net Debt to Equity	Net Cash	Net Cash	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	0.8	0.8	0.8	0.8	0.7
P/E	18.6	15.4	14.9	18.0	15.6
Core P/E at target price	21.7	17.9	17.4	21.0	18.2
P/B	2.6	2.3	2.2	2.0	1.9
P/NTA	3.2	2.7	2.7	2.4	2.2
Cash Conversion Cycle					
Trade receivable days	81	89	86	87	88
Inventory days	49	54	78	53	53
Trade payable days	132	144	136	143	143
CCC days	-2	0	28	-2	-1

Balance Sheet

(S$'000)	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Plant and equipment	3,464	5,948	4,985	3,994	2,801
Intangible assets	7,764	7,462	8,185	8,036	7,940
Deferred tax assets	210	105	105	105	105
Total non-current assets	**11,438**	**13,515**	**13,274**	**12,135**	**10,847**
Inventories	10,863	11,431	18,535	12,771	13,053
Trade and other receivables	29,833	28,654	31,293	32,811	33,811
Prepayments	492	366	661	661	661
Cash and cash equivalents	22,353	26,165	24,405	33,995	39,534
Total current assets	**63,541**	**66,616**	**74,894**	**80,239**	**87,058**
Total assets	**74,979**	**80,131**	**88,168**	**92,374**	**97,905**
Share capital	32,555	32,641	32,641	32,641	32,641
Retained earnings	21,587	26,467	28,184	32,094	36,602
Other reserves	(14,980)	(15,032)	(15,112)	(15,112)	(15,112)
Total equity	**39,162**	**44,076**	**45,713**	**49,623**	**54,131**
Deferred tax liabilities	502	469	469	469	469
Lease liabilities, non-current	0	2,442	1,950	1,950	1,950
Total non-current liabilities	**502**	**2,911**	**2,419**	**2,419**	**2,419**
Income tax payable	1,480	1,459	1,900	1,900	1,900
Trade and other payables	30,835	30,628	36,685	36,982	38,005
Lease liabilities, current	0	757	1,040	1,040	1,040
Other financial liabilities, current	3,000	1,057	410	410	410
Total current liabilities	**35,315**	**33,144**	**40,035**	**40,332**	**41,355**
Total liabilities	**35,817**	**36,055**	**42,454**	**42,751**	**43,774**
Total equity and liabilities	**74,979**	**80,131**	**88,168**	**92,373**	**97,905**

Cash Flows Statement

(S$'000)	FY2018A	FY2019A	FY2020E	FY2021E	FY2022E
	Fiscal Year Ended 31 Dec				
Profit/(loss) before tax	**7,000**	**7,987**	**7,946**	**6,753**	**7,788**
Amortisation of intangible assets	392	406	401	401	401
Depreciation of plant and equipment	439	1,599	1,609	1,567	1,619
Changes in working capital	(1,256)	935	(6,003)	4,889	(515)
Others	961	(157)	(126)	(50)	(65)
Net cashflows from operating activities	**7,536**	**9,453**	**2,741**	**12,552**	**8,041**
Purchase of plant and equipment	(3,334)	(502)	(649)	(599)	(449)
Purchase of intangible assets	(44)	(104)	(822)	(253)	(306)
Interest received	54	157	126	50	65
Net cash flows used in investing activities	**(3,324)**	**(449)**	**(1,345)**	**(801)**	**(689)**
Gross proceeds from IPO	15,605	-	-	-	-
Dividends paid to equity owners	7,000)	(1,650)	(3,004)	(2,023)	(1,675)
Repayment of borrowings	(4,383)	(2,700)	(100)	-	-
Proceeds from borrowings	3,425	-	-	-	-
Others	(1,799)	(842)	(52)	(138)	(138)
Net cash flows from (used in) financing activities	**5,848**	**(5,192)**	**(3,156)**	**(2,161)**	**(1,813)**
Net increase (decrease) in cash and cash equivalents	**10,060**	**3,812**	**(1,760)**	**9,590**	**5,538**
Cash and cash equivalents at beginning	12,293	22,353	26,165	24,405	33,995
Cash and cash equivalents, ending balance	**22,353**	**26,165**	**24,405**	**33,995**	**39,534**

UMS Holdings Limited

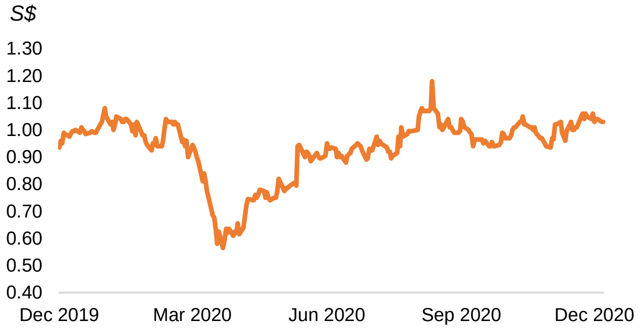
Date: 9 December 2020

BUY (Initiation)

Target Price: S$1.26 (+22.3%)

UMS Holdings (558.SI)

Price: S$1.03 (as at 8 December 2020)



Share price	1M	3M	6M	1Y
UMS Holdings Limited	0.0%	+4.0%	+10.8%	+4.6%
Straits Times Index	+8.3%	+12.8%	+1.0%	-11.6%

Market Capitalisation	S$549.4 million
Current Price	S$1.03
Shares Outstanding	533.4 million
Free Float	79.5%
Major Shareholder	Luong Andy 20.4%
Recommendation of other brokers	2 Buy 1 Outperform 1 Add

Source: Company data, Bloomberg, SAC Capital

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Semiconductor industry tailwind to persist

UMS Holdings is in the business of providing manufacturing and engineering services to semiconductor equipment manufacturers. The Group specialises in manufacturing high precision front-end semiconductor components and performing electromechanical assembly and final testing services. They work closely with its clients to provide fully integrated solutions for factory automation, as well as to develop new processes and technology. In recent years, UMS Holdings has also branched out into aerospace component manufacturing, which taps on its precision engineering expertise, as well as water and chemical engineering solutions.

Expect robust performance in FY2020 on the back of strong semiconductor demand. 9MFY20 revenue increased 31.5% yoy to S$120.3 million, due to robust performance in the semiconductor segment. Net profit in 9MFY20 rose by 48.1% yoy to S$35.3 million, with strong operating leverage and higher share of profit from associate JEP Holdings. Gross margin in 9MFY20 remained relatively stable at 53.2% (9MFY19: 53.7%). We expect growth to continue into 4QFY20 with the industry-wide semiconductor growth due to strong customer demand.

Semiconductor tailwind expected to persist. According to SEMI's mid-year forecast, global sales of semiconductor equipment manufacturing is projected to increase by 6.0% to US$63.2 billion in 2020. The growth trajectory is likely to continue even after 2020, with the World Semiconductor Trade Statistics ("**WSTS**") forecasting semiconductor sales to grow 6.2% yoy in 2021, in line with SEMI's forecasts that semiconductor manufacturing equipment sales would rise 17.4% to US$70 billion in 2021. This is accelerated by Covid-19, which drove the demand for chips, from gaming, communications, IT infrastructures, data centres and healthcare electronics.

Initiate with a BUY rating, at fair value of S$1.26. Our target price is based on a FY21E P/E of 14.4x, in line with the Singapore sector average P/E of 14.4x. We expect the semiconductor growth to continue into FY2021, with the adoption of technologies such as artificial intelligence (AI), Internet of Things and use of advance chipsets in automotive and consumer electronics. Our target price implies a 22.3% upside to the last traded price.

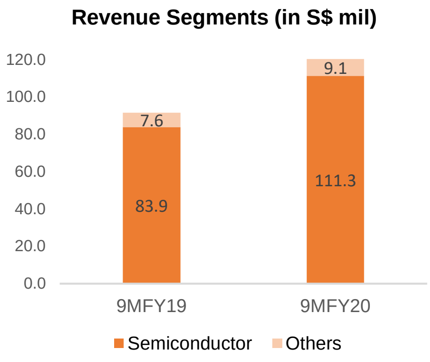
Key Risks: Customer concentration risk, supply chain uncertainty, FX risks

Key Financials

Year ended 31 Dec	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E
Revenue (S$'000)	162,498	127,939	131,912	165,252	171,982
% Growth	55.9%	-21.3%	3.1%	25.3%	4.1%
Gross margin	54.7%	60.2%	52.9%	52.9%	51.8%
Profit/(loss) before tax (S$'000)	55,238	45,506	35,455	51,713	50,639
Profit/(loss) before tax margin	34.0%	35.6%	26.9%	31.3%	29.4%
Profit/(loss) attributable to owners (S$'000)	52,037	43,071	33,556	47,927	46,728
EPS (Singapore cents)	9.70	8.03	6.26	8.94	8.72
P/E (x)	10.6	12.8	16.4	11.5	11.8
P/B (x)	2.6	2.4	2.2	2.1	1.9
Net Debt/Equity (%)	Net Cash	2.7	Net Cash	Net Cash	Net Cash

*Singapore Financial Reporting Standards (International) ("**SFRS(I)**") SFRS 16 has been implemented in FY2019.*

Investment Highlights



Source: Company Data, SAC Capital

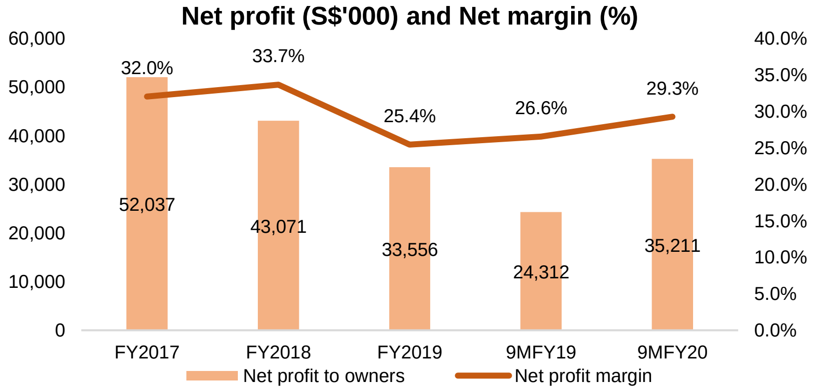
UMS Holdings is in the business of providing manufacturing and engineering services to semiconductor equipment manufacturers.

The Group specialises in manufacturing high precision front-end semiconductor components and performing electromechanical assembly and final testing services. They work closely with its clients to provide fully integrated solutions for factory automation, as well as to develop new processes and technology. In recent years, UMS Holdings has also branched out into aerospace component manufacturing, which taps on its precision engineering expertise, as well as water and chemical engineering solutions.

A profitable 9MFY20, strength expected to continue into 4QFY20.

Revenue for 9MFY2020 grew 31.5% yoy to S$120.3 million, which accounted for 91.2% of FY2019 revenue. This is due to overall 32.7% and 18.4% improvements in the Semiconductor and Others segments respectively. Revenue rose in all of the Group's key markets, except the United States due to lower component sales for new systems built. Overall, gross margin in 9MFY20 remained relatively stable at 53.2% (9MFY19: 53.7%). Net profit margin sits at 29.3% in 9MFY20, a 3.2 percentage point increase from 26.1% a year ago.

The semiconductor industry in general has seen a surge in demand in 2020. The stellar performance in 2020 is due to the industry wide demand for semiconductor segment, accelerated by Covid-19 which drove demand for chips. We expect growth to continue into 4QF20 due to industry-wide semiconductor growth due to strong customer demand.



Source: Company Data, SAC Capital

Increasing stake in JEP Holdings

UMS believes that JEP Holdings Ltd. ("**JEP**")'s semiconductor equipment manufacturing capability is a good fit with theirs and has raised its stake in JEP to 41.0% as at 25 November 2020. In 9MFY20, JEP's share of profits increased 11.1% yoy, from S$1.9 million to S$2.2 million. However, JEP's higher profit is mainly due to higher government grants rather than an increase in revenue. Although vaccine hopes have renewed some optimism in the aerospace industry, we feel that the outlook for aviation is still uncertain. We expect share of profits from JEP to decrease due to lower government grants in FY2021.

Investment Highlights

Foothold in the global supply chain

UMS retains its position as a supplier to Applied Materials, a market leader in semiconductor equipment manufacturing with a market share of approximately 20%. UMS also focuses on producing equipment for the wafer manufacturing stage in the upstream integrated circuit manufacturing process. Silicon wafers are the basic building blocks of ICs. The sector is resilient in the face of advancement and changes in IC design or manufacturing processes which are further downstream.

In FY2020 ending 31 October, Applied Materials saw their revenue grew 17.8% yoy, to US$17.2 billion. Earnings per share came in at US$4.17. According to Bloomberg consensus estimates, Applied Materials' FY2021E expected revenue growth is 13.6%, and net profit 19.1%. Sales is expected to rise through the fiscal year 2021, benefitting from solid demand for foundry and logic-chip, with ongoing shift to next-generation technologies such as 5- and 3-nanometer chips for 5G and data centres. Digital transformation of companies and the accelerating economy are multi-year growth drivers for the semiconductor industry.

Initiate BUY rating, with fair value S$1.26.

Given the cyclical nature of the semiconductor industry, we have arrived at a fair value of S$1.26 using P/E valuation. Our target price is based on a FY21E P/E of 14.4x, in line with the Singapore sector average P/E of 14.4x. We expect the semiconductor growth to continue into FY2021, with the adoption of technologies such as artificial intelligence (AI), Internet of Things use of advance chipsets in automotive and consumer electronics. Our target price implies a 22.3% upside to the last traded price.

While we expect FY2021E revenue to increase, we believe higher raw material costs will drag gross margins down slightly. Higher costs stemming from employee benefits and depreciation expense can be expected in order to keep up with industry demands. In addition, despite higher stake in JEP, we expect share of profits from associate to decrease in the absence of government grants, given the weakness in the aviation sector still persist. Hence, we expect the overall FY2021E net profit to decrease slightly.

TICKER	Market Cap (USD mil)	P/E (as at 8 Dec 2020)
HI-P INTERNATIONAL LTD	1051.9	17.6
AEM HOLDINGS LTD	710.4	9.8
UMS HOLDINGS LTD	411.3	12.4
FRENCKEN GROUP LTD	367.2	11.8
SUNNINGDALE TECH LTD	217.8	17.5
FU YU CORPORATION	143.8	12.8
ISDN HOLDINGS	130.4	15.5
INNOTEK	92.5	9.6
AVI-TECH ELECTRONICS	53.8	12.0
GRAND VENTURE TECHNOLOGY	51.7	22.0
ASTI HOLDINGS LTD	15.3	17.3
SECTOR AVERAGE	**295.1**	**14.4**

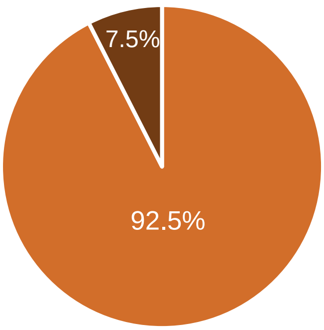
Source: Company Data, SAC Capital

Business Segments

With extensive experience in precision engineering and manufacturing, UMS Holdings provides manufacturing and engineering solutions primarily to the Semiconductor equipment manufacturing industry.

The Group's business can be categorised into 2 main business segments, **Semiconductor** and **Others**.

9MFY20 Revenue

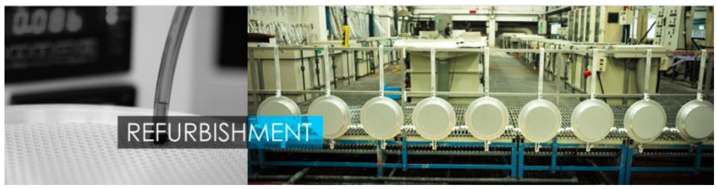


Source: Company Data, SAC Capital

Business Overview:

UMS Holdings' core business is the provision of manufacturing and engineering services to semiconductor equipment manufacturers. The company works closely with its clients to provide fully integrated solutions for factory automation, as well as to develop new processes and technology. In recent years, UMS Holdings has branched out into aerospace component manufacturing, which taps on its precision engineering expertise, as well as water and chemical engineering solutions.

Semiconductor segment



Masking, Polishing, bread-blasting, Chemical Stripping, Inspection & QC

Anodising, Passivation, Brazing & Welding, Plating

5-axis CNC Machining, Vertical Turning Lathe

Direct engagement with customers' product development teams to achieve quality outcomes efficiently.

Full system integration and validation testing

New business models, supply chain strategy & management

Business Segments

Others segment

Manufacturing and engineering services for highly specialized and customized products including engine casings for passenger airlines.

Chemical engineering solutions, including the manufacture of on-site chlorine and sodium hypochlorite generation systems. These help clients reduce dependency on suppliers and lower risks from transport and transfer of these chemicals.

Reverse Osmosis water treatment systems

Metal products supply and fabrication

Income Statement

$'000	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E
	Fiscal Year Ended 31 Dec				
Revenue	**162,498**	**127,939**	**131,912**	**165,252**	**171,982**
Cost of sales	(73,567)	(50,920)	(62,082)	(77,767)	(82,943)
Gross profit	**88,931**	**77,019**	**69,830**	**87,485**	**89,039**
Employee benefits expense	(16,593)	(16,616)	(15,905)	(18,466)	(19,296)
Depreciation expense	(4,321)	(5,671)	(6,874)	(7,667)	(8,336)
Other expenses	(12,322)	(11,707)	(10,884)	(11,441)	(11,541)
Other income/ (charges)	(414)	2,357	(2,653)	(285)	(641)
Finance income	389	210	331	200	167
Finance expense	(390)	(611)	(964)	(638)	(1,004)
Impairment loss on investment in associate	(42)	-	-	-	-
Share of profit of associate	-	525	2,574	2,524	2,253
Profit/(Loss) before tax	**55,238**	**45,506**	**35,455**	**51,713**	**50,639**
Income tax (expense) / benefit	(3,523)	(2,853)	(2,241)	(3,787)	(3,911)
Profit/(Loss) for the year	**51,715**	**42,653**	**33,214**	**47,927**	**46,728**
Profit/(Loss) attributable to owners of company	**52,037**	**43,071**	**33,556**	**47,927**	**46,728**
Minority Interests	(322)	(418)	(342)	-	-
EPS:					
-Basic (SG cents)	9.70	8.03	6.26	8.94	8.72
-Diluted (SG cents)	9.70	8.03	6.26	8.94	8.72

Ratios

	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E
	Fiscal Year Ended 31 Dec				
Adoption of SFRS 16 Leases increased lease liability in FY2019					
Profitability (%)					
Gross profit/(loss) margin	54.7	60.2	52.9	52.9	51.8
Profit/(loss) before tax margin	34.0	35.6	26.9	31.3	29.4
Liquidity (x)					
Current ratio	3.3	2.7	3.3	3.1	3.4
Quick ratio	2.1	0.9	1.7	1.7	2.0
Interest coverage ratio	142.6	75.5	37.8	82.1	51.4
Net Debt to Equity (%)	Net Cash	2.7	Net Cash	Net Cash	Net Cash
Valuation (x)					
P/S	3.4	4.3	4.2	3.3	3.2
P/E	10.6	12.8	16.4	11.5	11.8
Core P/E at target price	12.9	15.6	20.0	14.0	14.4
P/B	2.6	2.4	2.2	2.1	1.9
P/NTA	4.2	3.7	3.4	3.1	2.6
Cash Conversion Cycle					
Trade receivable days	53	43	61	68	65
Inventory days	246	505	304	263	257
Trade payable days	90	101	110	94	91
CCC days	209	447	255	237	231

Balance Sheet

(S$'000)	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E
	Fiscal Year Ended 31 Dec				
Cash and bank balances	59,571	18,926	34,364	42,297	65,451
Trade receivables and other current assets	23,431	15,149	22,072	30,763	32,016
Inventories	49,633	70,438	51,746	56,135	57,780
Total current assets	**132,635**	**104,513**	**108,182**	**129,195**	**155,247**
PPE	38,782	53,368	52,307	48,671	52,386
Right-of-use assets	-	-	4,237	3,998	3,998
Investment property	2,240	2,100	1,832	1,737	1,737
Investment in associates	-	29,501	39,397	42,658	50,016
Loan to associate	3,296	3,345	-	-	-
Goodwill	82,201	82,201	81,211	81,211	81,211
Deferred tax assets	-	-	47	47	47
Total non-current assets	**126,519**	**170,515**	**179,031**	**178,322**	**189,394**
Total assets	**259,154**	**275,028**	**287,213**	**309,058**	**344,641**
Bank Borrowings	19,001	20,295	9,334	13,327	16,208
Trade and other payables	18,077	14,123	18,760	20,125	20,635
Loan from related parties	-	1,403	1,403	1,403	1,403
Lease liability	-	-	262	172	184
Income tax payable	3,285	2,316	2,754	4,655	3,911
Total current liabilities	**40,363**	**38,137**	**32,513**	**39,682**	**42,341**
Loan from related parties	3,158	3,419	3,626	3,825	3,825
Deferred tax liabilities	1,427	2,606	2,127	2,103	2,103
Long-term provision	405	405	405	405	405
Lease liability	-	-	3,656	3,561	3,093
Total non-current liabilities	**4,990**	**6,430**	**9,814**	**9,894**	**9,426**
Share Capital	136,623	136,623	136,623	136,623	136,623
Treasury Shares	-	-	-	(1,919)	(1,919)
Reserves	(10,560)	(10,683)	(10,823)	(10,871)	(10,871)
Retained earnings	89,045	102,612	117,465	134,006	167,398
Non-controlling interest	(1,307)	1,909	1,621	1,643	1,643
Total Equity	**213,801**	**230,461**	**244,886**	**259,482**	**292,874**
Total Liabilities and Equity	**259,154**	**275,028**	**287,213**	**309,058**	**344,641**

Cash Flows Statement

(S$'000)	FY2017A	FY2018A	FY2019A	FY2020E	FY2021E
	Fiscal Year Ended 31 Dec				
Profit/(Loss) before tax	**55,238**	**45,506**	**35,455**	**51,713**	**50,639**
Depreciation expense	4,321	5,671	6,874	7,667	8,336
Allowance for inventories obsolescence	(910)	(34)	1,611	843	641
Interest income	(361)	(210)	(331)	(200)	(167)
Interest expense	390	611	964	638	1,004
Changes in working capital	(17,589)	(7,451)	12,923	(11,715)	(2,388)
Share of profit of Associate	-	(525)	(2,574)	(2,524)	(2,253)
Others	944	(1,622)	1,019	(1,035)	-
Income tax	(2,060)	(3,566)	(2,339)	(3,375)	(3,911)
Net generated from operating activities	**39,973**	**38,380**	**53,602**	**42,012**	**51,902**
Purchase of PPE	(10,564)	(15,685)	(2,207)	(2,216)	(12,051)
Proceeds from PPE disposal	1,901	21	2,021	192	-
Investment in Associate	(42)	(28,976)	(7,322)	(1,807)	(5,105)
Net cash outflow from acquisition of subsidiary	(866)	(4,386)	28	-	-
Others	(2,210)	198	288	184	167
Net Cash used in investing activities	**(11,781)**	**(48,828)**	**(7,192)**	**(3,647)**	**(16,989)**
Proceeds from bank borrowings	25,766	48,320	41,700	7,412	14,881
Repayment of bank borrowings	(7,014)	(47,254)	(52,639)	(4,700)	(12,000)
Dividends paid	(26,822)	(29,504)	(18,775)	(26,671)	(13,336)
Interest paid	(390)	(321)	(480)	(275)	(1,004)
Treasury share purchase	-	-	-	(1,919)	-
Repayment of loan from related parties	-	(1,403)	-	-	-
Repayment on lease liability	-	-	(463)	(497)	(300)
Net Cash used in financing activities	**(8,460)**	**(30,162)**	**(30,657)**	**(26,651)**	**(11,759)**
Net (decrease)/increase in cash and cash equivalents	**19,732**	**(40,610)**	**15,753**	**11,714**	**23,154**
Net effect of exchange rate	(2,781)	(35)	(315)	(3,781)	-
Cash and cash equivalents at the end of the year	**59,571**	**18,926**	**34,364**	**42,297**	**65,451**

*Financial figures have not been adjusted to Singapore Financial Reporting Standards (International) ("**SFRS(I)**") and may not be comparable to the latest company financials*

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