SG Weekly (14 October 2021 - 20 October 2021)

Market Moves

KrisEnergy's official liquidation and SembMarine's warning of a significant loss in 2H21 (similar to that of 1H21's S$647m loss) were stark reminders that the O&G sector is still not out of the woods. Losses since FY18 have wiped out S$1.4bn of SembMarine's net assets. We think higher crude prices and reduced capex in the past years make the sector less bad, and not become positive. Longer term, we are wary of a structural decline as countries work on their net-zero target.

Singapore's extension of lockdown till 21 Nov put a dampener on the resumption of travel and tourism, especially as Thailand, S Korea and Australia are planning to lift border controls. This will delay the recovery in the services sector, as people stay away from malls and offices. The external sectors would lead Q4 GDP growth.

Analysts' Notes

Semiconductor | Apple introduced its own M1 chips into the Pro or Max MacBook, which is expected to perform better than Intel's fastest, dropping its dependency on Intel along the way. The chipsets showcase significant improvements in graphics processing and speed. Power efficiency also saw improvements with longer playback times.

Alibaba unveiled its new 5nm server chip, powered by 128 Arm cores with 3.2GHz top-clock speed, called Yitian 710. This shows that their infrastructure development spending (200 billion yuan, as announced last year) is bearing fruit, although production will likely still be outsourced with limited manufacturing capabilities. In their Oct 19 statement, Alibaba also announced plans to develop its own servers that will be designed for "general purpose" and "specialised AI momentum to sustain with higher production output at Malaysia and Vietnam as their plants resume normal operations in Q4. The one unknown factor is a sharp slowdown in China.

China's Q3 GDP eased to 4.9% (Q2: +7.9%), weighed down by slower industrial production (+3.1% yoy) with power shortage and production restrictions. We think Q4 might feel the full brunt of the decline in property sales, impacting consumption. Industrial activities might be lower with the Winter Olympics round the corner. Q4 GDP growth could come in at below 3%. On a brighter note, the slowdown in China might just be the silver bullet to solve the current shortage of nearly everything, bringing down freight costs, metal and food prices.

government to make tech self-sufficiency a top national priority. *(Lim Li Jun Tracy)*

China Property | China's new home prices stalled in September with the ongoing property crackdown to cool the market, under the campaign saying that "housing is for living, not for speculation", as he seeks to make housing more affordable and reduce costs of raising a family. M-o-m in September, the average new home price in 70 major Chinese cities was unchanged (August: +0.2% m-o-m). Restrictions such as tighter borrowing on property purchases, and credit tightening, saw home loans decreasing by 510 billion yuan yoy in Q3, suppressing home purchase demand.

Chinese developers' inability to make their debt payments is further adding to property concerns there. Sinic Holdings Group, the country's 41st biggest developer, has become the latest Chinese real estate firm to default after failing to repay the interest and principal of its US$250 million note due on Monday (Oct 18). Sinic also warned that this may trigger cross-default on its two other notes. Sinic has US$694 million in dollar bonds outstanding. Just earlier in October, Fantasia Holdings Group missed their debt repayment. Borrowing costs would likely continue

Kim Heng Ltd | Secured a US$7.2m wind turbine installation contract for an onshore windfarm in South Vietnam following the purchase of a 1250 tonnes Sany Crawler Crane for S$10m. This is the first venture outside Taiwan for its renewable business. The purchase will allow the Group to expand beyond its current offshore cable installation services to include heavy lifting and installation works for wind turbines parts. This will help to augment KH as a renewable player, paving the path to securing more contracts with more services to offer. The crane is funded partially by a green loan from UOB which raises the Group's net gearing ratio to 79%. *(Lim Shu Rong)*

Dasin Retail Trust | Sino-Ocean Group Ltd took a 70% stake in Dasin's trustee-manager, and a call option from the REIT's major shareholder lift its stake in the REIT from current 6% to 26%. With Sino-Ocean at the helm of the trustee-manager, this raises the chance of a refinancing of the S$502m debt due in mid-Dec 2021, and removes the overhang on its share price. Dasin's 1H21 DPU of 2.67ct/unit (+97.8%) (without distribution waiver) translates into annualized yield of 11.0%. Unitholders received a higher 2.98ct/unit as 82.4m units were excluded from

S$2.4bn (RMB11.6bn) located in the China Greater Bay Area, and has a ROFR of 15 retail assets from the sponsor. Sino-Ocean is a Chinese residential property developer and owner of commercial, logistics and data centres, with net assets of RMB71.0bn. We believe some of these assets could be injected into Dasin if the latter expands its mandate to beyond retail and commercial properties. But the current high yield and low P/B are constraints to growing its asset. Dasin is trading at 0.3x P/B. *(Peggy Mak)*

ESR REIT / ARALogos Logistics REIT merger | ESR REIT is acquiring ARALogos Logistics REIT for S$1.4bn. Each ARALogos unitholder will receive S$0.095 cash and 1.6765 new ESR REIT units at S$0.51 each. As the new ESR REIT units were priced at 8.5% above current price, ARALogos' price corrected when the deal was announced. The combined entity have total asset value of S$5.4bn comprising of industrial and logistics assets.

ESR REIT's parent ESR Cayman announced the acquisition of ARA in August for US$5.2bn. The merger of ESR REIT & ARALogos is likely to be the first of many to come. Other Singapore REITs under the ARA umbrella are Suntec REIT and ARA Hospitality Trust. ESR REIT holds stake in asset acquisition/divestment; 2) lower funding costs; 3) inclusion into leading indices; and 4) a larger pool of investors.

In addition to mergers of the REITs, S-REITs with Chinese assets might be attractive targets for Chinese property companies looking to unlock asset value and recycle capital. REITs listed in China so far are all infrastructure assets. *(Peggy Mak)*

Macro Views

Company News

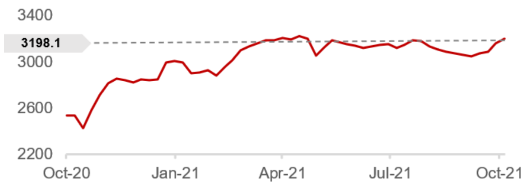
Incredible Holdings Ltd (BBG: INCR) plans to acquire a 42% stake in Golden Ultra Limited (GUL) from major shareholder Mr Heilesen (holds 59.1% stake). GUL through its subsidiary, CKLY Trading (CKLY), sells luxury watches on its online platform, and made HK$2.7m in 1H21. At S$14.6m, the purchase value is 1.2x Incredible's current market cap of S$12m. It values GUL at S$35m, about 45% above an independent valuation. Incredible will issue a S$14.6m promissory note due 30 Sep 2022 for the acquisition. The coupon on the note was not disclosed.

Note that Mr Heilesen also intends to sell a 55% in GUL at the same valuation to Ntegrator Ltd incentive of S$4.8m. Mr Heilesen holds a 13.7% stake in Ntegrator, which will fall to 12.0% post the recent private placement of 172m new shares cum warrants at S$0.0082 each.

Lian Beng Group Ltd (BBG: LBG) 60%-owned United Tec Construction secured the contract for a proposed private residential development at Ang Mo Kio Ave 1 for S$118m. This brings its orderbook on hand to S$1.4bn to last through FY2026.

At an estimated GFA of 31,699 sq ft, it translates into construction cost of S$346/sf, which appears low if there is no protection against cost escalation. The site was won by a UOL consortium at S$1,118 psf ppr. The 47-month contract period suggests that construction is taking longer, thus adding financing costs to developers, contractors and buyers.

Metal Component Engineering Ltd (BBG: MCOM) entered into a 60:40 JV with MNR Food to incorporate Gain Foods Pte Ltd for product development and distribution of clinical nutrition products. Gain Foods will initially target products for kids and seniors as well as weight wellness products. Gain Foods will also be responsible for marketing these products in Asia.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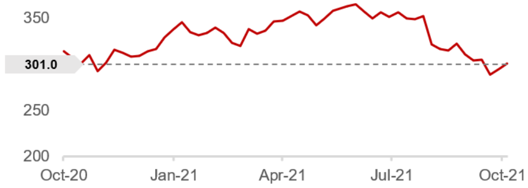
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