SG Weekly
19 April – 23 April 2021

SAC CAPITAL

Market Moves

As football fans worldwide were riled by the proposal to form a breakaway "Super League" by 12 of Europe's best-known football clubs, equity markets were stirred by news reports that President Biden could propose a near doubling of the capital gains tax rate to 39.6% for wealthy individuals earning over US$1m – with the Obamacare 3.8% surcharge for capital gains on top of this likely remaining. Investors would adjust their exposure ahead of a potential tax increase, and is a risk to stocks with high trading frequency.

Recent spikes in virus infections in Asia raised concerns about the pace of economic recovery. Singapore has banned the entry of non-residents from India, further delaying construction projects.

REITs began the 1Q earnings reporting season with higher payouts, mainly from higher rent collections, distributions held back in prior year and the absence of rebates granted to tenants. Some industrial REITS, however, face negative rental reversions.

The Cabinet reshuffle, to be effective mid May, will see Mr. Lawrence Wong taking over as the Minister for Finance and Mr. Gan Kim Yong helming the Ministry of Trade and Industry. Mr Chan Chun Sing will helm the Ministry of Education.

Analysts' Notes

UMS Holdings Ltd (BBG: UMSH) **Target price: S$1.38 | Latest report**

UMSH acquired a 13.1% vendor stake at S$0.20 each and subsequently launched an all cash offer for the remaining 46.2% stake at the same price. Total outlay would be ~S$49.1m if it secures 100% acceptance. We estimate this would raise UMS' net gearing to a manageable 11.7%, compared to net cash of S$0.062 per share as at end 2020. UMS intends to keep JEP listed. JEP provides precision machinery and engineering for the aerospace industry, which have been affected by the fall in aviation volume. However, we are upbeat on the possibility that JEP's precision engineering capacity could be deployed to meet the current shortage in the semiconductor sector. UMS produces semiconductor equipment and parts. *(Lim Li Jun Tracy)*

URA reported that Singapore 1Q rental index of retail space in Central Region fell 4.4%, narrowing from the 5.2% decrease seen in the prior quarter while prices dropped 3.2% as compared to the decrease of 2.1% in the previous quarter. On the other hand, according to CBRE, suburban retail rent remained relatively stable. FCT, with its suburban-focused portfolio, had benefited from this trend. FCT 1H21 performance was boosted by ARF acquisition. NPI stood at S$125.7 million (+73.8%) while DPU increased to 5.996 S cents (+28.4%). At the same time, average rental reversion remained flat (-0.7%) following a change in methodology. Further easing of safe distancing measures are likely to bode well for the retail sector. FCT is currently trading at a yield of 3.7% on its FY20 DPU and 1.1x P/B on its latest reported NAV. *(Lam Wang Kwan)*

Construction sector. The construction sector faces continued headwinds from tighter border controls on workers arriving from India, following the spike in Covid cases in India. We expect the effects to trickle down to local property developers like Roxy-Pacific (**Latest report**). In line with the rise in Q1 private home prices amid strong demand, we expect this will likely translate into firmer toplines, but bottom-line will face pressures with longer construction periods (and hence project completion and cash flow) and higher manpower costs. *(Lim Li Jun Tracy)*

Transportation sector. Singapore plans to roll out electric taxis from July 2021, when SMRT will run its first batch of 300 cars and to replace its entire taxi fleet in the next 5 years. This is in line with Singapore's plans to register only cleaner-energy cars by 2030 as part of its national sustainability movement, The Green Plan. SMRT also partnered with EuroSports Technologies to develop and distribute smart electric motorcycles in Singapore and A-Pac. However, we believe building up a charging network still remains one of the challenges. There are currently less than 2,000 charging stations in Singapore, a far cry from the 60,000 target by 2030. Based on estimates, the current ratio of charging stations to total cars is 1:400 (China: 1:165). *(Lim Li Jun Tracy)*

Company News

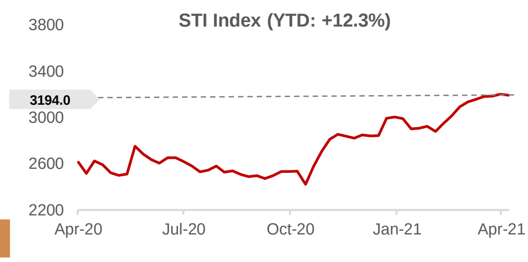
Fortress Minerals Limited (BBG: FMIL) posted 180.9% jump in net profit to US$18.3m on the back of 84.1% gain in revenue to US$47.7m for FY ended Feb 2021, driven higher volume (+67.9% to 0.45m dry MT) and ASP (+9.9% to US$105.4/dry MT). Demand for iron ore concentrate is fuelled by strong steel production in China, which supply disruption in Brazil due to weather and operational challenges from COVID. The acquisition of MMSB in April 2021 lifted inferred mineral resource from 0.28m ton to 16.22m ton.

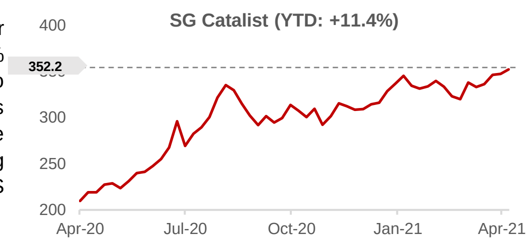
Hong Lai Huat Group Limited (BBG: HLHG) to sell HLH Agri R&D Pte Ltd. HLHG signed a term sheet to sell HLH Agri R&D Pte Ltd, which owns the D'Kranji Farm Resort in Singapore, to Gallop Green for S$4.8m. The resort was valued at S$8.0m at 31 Dec 2020.

Lasseters International Holdings Limited (BBG: LASS) proposed disposal of its last Australian assets for A$105.6m, subject to price adjustments. The resort and casino operations at Alice Spring is carried in its books at A$121m. The sale would also resulted in capital gains tax of ~A$52.9m. This compares with Lasseters' net assets of A$38.7m, and market cap of A$23.4m. The assets contributed A$6m profit in FY20, compared with Lasseters' overall net profit of A$4.7m.

Scorecard

Symbol	Price	Change	1D % Change	5D % Change	YTD % Change
STI	3194.0	▲ 6.3	▲ 0.2%	▼ 0.2%	▲ 12.3%
SG Mid Cap	767.7	▲ 0.0	▲ 0.0%	▼ 0.4%	▲ 10.2%
SG Catalist	352.2	▲ 3.8	▲ 1.1%	▲ 1.4%	▲ 11.4%
SG Small Cap	328.0	▲ 1.4	▲ 0.4%	▲ 0.0%	▲ 8.7%





Macro Views

SG March CPI was up 1.3% yoy (Feb 21: +0.7% yoy) as greater mobility relaxation and business reopening drove more spending on dine-out (+1.0% yoy), transportation (+5.7%) and medical consultation (+1.0%). Core inflation, which excludes accommodation and private transportation, rose 0.5% (Feb 21: +0.2% yoy). A reduction in the supply of certificates of entitlement for cars and motorcycles are expected to hold up prices and CPI in the next few months. However, MTI and MAS believe that inflation is unlikely to accelerate in 2H as business cost pressures are contained.

Private new home sales in 1Q21 rose 62.5% yoy (34.2% qoq) to 3,493 units, ~35% of 2020's volume. Prices also gained 6.6% yoy and 3.3% qoq, led by landed units (+8.9% yoy, +6.7% qoq) and units outside the core region (+11.7% yoy, 6.1% qoq). Rental rates also gained 2.2% over 4Q20, and 0.6% over 1Q20, as vacancy rates fell from 7% to 6.4%. Unsold units fell 11.1% from 4Q to about 21,634 units.

HDB resale prices also edged up 8.1% yoy and 3.0% qoq. About 7,581 units changed hands, or 28.6% higher than 1Q20, but 0.8% lower than 4Q20. The residential market remains buoyant, mirroring the trends in other developed markets, as low interest rates and higher savings rate underpin demand and asset prices.

Office rental finally turned the corner and recovered 3.3% qoq in 1Q21, though still -4.8% from 1Q20. Prices were still 2.7% lower than 4Q20 and 9.5% lower than 1Q20.

Prices of retail space fell by a further 3.2% over 4Q20 (-4.6% yoy) in 1Q21. Rent was 4.4% lower than 4Q20. Orchard Road retail space faced the sharpest decline of -3.4% qoq, although pressure has eased from last quarter's -6.0%. Suburban malls had a smaller qoq fall at -1.0%.