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SG Weekly (3 June 2021 - 9 June 2021)

Editor's Note

Dear all,

Welcome to the new SG Weekly.

SAC SG Weekly will now be published every Friday and will adopt a new refreshing look.

Thank you all for your continued support and we hope that the reading is fruitful for you!

Warmest Regards,

SAC Research

Market Moves

The SG market is in eager anticipation for an update on the relaxation measures after 13 Jun. The number of community new virus cases dropped to 2 yesterday, raising quiet optimism that gradual relaxation, such as dine-in and bigger gathering group size, could be on the cards. The market is also pricing in travel relaxations, such as with South Korea. Besides a high proportion of vaccinated population, we believe the key to effective re-opening is a quick, reliable and inexpensive COVID test tool, similar to the temperature screener. The breathalyser test currently under trial at Tuas Checkpoint and the airport offers hope.

Finance leaders from the G7 nations agreed on a new global minimum tax rate of 15% for MNCs with profit margin of >10%, and Amazon (though its margin is <10%). The move might deter foreign investments for tax reasons. More importantly, country leaders are seeking ways to shore up fiscal position after the massive stimulus packages handed out in 2020. Income

Analysts' Notes

Higher freight costs pushing up food prices in Singapore. The Department of Statistics reported that dairy products and eggs rose 33.5% yoy in April, and animal and vegetable oils rose 24.2% yoy. Food suppliers are seeing margins being squeezed with rising costs due to the mismatch in level of trade and disruptions to supply chain. With high shipping container prices stemming from rising factory activity, higher demand for imported goods and tighter global supplies, we expect higher costs will be here to stay in the near term, at least until container and ship orders come in. Smaller suppliers in the market will bear the brunt of the rising costs as they struggle between increasing selling prices and losing out sales to competitors. *(Lim Li Jun Tracy)* patents, software and royalties on intellectual properties. The communication services sector, software and drug companies will be most impacted. China is said to have sought exemption from the bill. In Singapore, shipping companies are exempted from tax. And the shareholding structure of REITs with US assets are structured in a way such that the assets pay minimum tax in the US. It is yet unclear how and if they will be affected.

Biden administration concluded an 100-day supply chain review with focus on four key sectors: semiconductors, large batteries, active pharmaceutical ingredients and pharmaceuticals, and critical minerals such as rare earth. The Senate has also voted to spend US$250bn to on-shore these industries back to the US. While this has yet to clear the House of Representatives, potentially this might result in a shift in the supply chain. It might also prompt protectionist moves in other parts of the world. Countries that would be affected are China, Australia, Japan, S Korea, Russia and India. Even Malaysia was mentioned in the 250-page review report.

Corporate investment plans were put on hold when former US President Trump announced his plans to slap tariffs on imports from China. The same might happen with the uncertainty from the shift in US policies. One positive is that the Chinese Vice Premier Liu He had held recent talks with US Trade Representative and Treasury Secretary to aim to resolve issues. This could pave the way for a resolution of the US-China trade war.

Macro Views

CN exports rose 27.9% yoy in May (Apr +32.2%), and were flat mom. Exports growth will continue to slow going forward, given a higher base and re-opening of other developing

Company News

OTS Holdings launched its IPO on SGX Catalist via the issuance of 41m shares (35m new, 6m vendor) at S$0.23 each. Market cap post listing is S$49.3m. IPO proceeds of ~S$8m

Possible constraints are the global chip shortage, logistic bottlenecks and the virus outbreak in Guangdong. Imports leaped 51.1% yoy (Apr +43.1%), but -1.2% from Apr. Higher commodity prices might hold up imports level, although China has implemented measures to curb the rise, such as the ban on steel exports.

CN production prices rose 9% yoy in May (Apr: +6.8%), fastest since 2008, due to rise in raw material prices. The transmission to CPI is low. Still, CPI rose 1.3% (Apr +0.9%), highest gain since Sep 20. A higher PPI translates into higher cost for manufacturers, and with a strong RMB vs US$ (which most sales are denominated in), could depress margins for Chinese manufacturers.

HDB resale prices rose for 11th straight month in May (+1.2% mom, +12% yoy). According to SRX Property flash estimate, this is still 2.6% lower than the peak in April 2013. The number of transactions eased 16% from April to 1,966 units, but was 440% yoy higher with the lockdown last year. 13 units exceeded the S$1m mark. YTD 87 units were priced above S$1m (FY20: 82 units). Second Minister for National Development Indranee Rajah said that the authority is still evaluating a different public housing model for new HDB flats in prime locations. Among the suggestions include more subsidies with subsidy recovery upon resale, restricting access to resale units based on eligibility, and imposing a longer minimum occupancy period before resale is allowed.

HDB resale values have a direct impact on the value of private properties, as HDB upgraders are key buyers. Measures that might hold back the rise in value of resale flat or reduce the profit from HDB resale

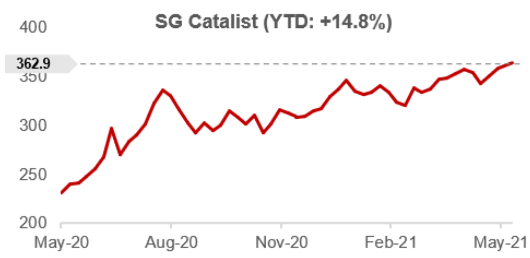
June. OTS is a meat product manufacturer and owns brands such as Golden Bridge and Kelly's. It sells to supermarkets, convenience stores, restaurants and hotels in the region.

Koh Brothers Eco Engineering Limited (BBG: KBE) completed the placement of 810m new shares at S$0.047 to Penta-Ocean Construction Co., Ltd.. Penta-Ocean now holds a 28.7% in the company, with the option to take one board seat. Mr Koh Keng Siang remains the largest shareholder with effective 55.8%. The new shares are subject to a 12-month lockup. KBE intends to use the net proceeds of ~S$37m for new projects and business expansion.

Metal Component Engineering Limited (BBG: MCOM) proposed to acquire 85.07% of Gainhealth Pte. Ltd. for S$4.25m, with performance bonus of up to S$5.1m payable to vendors. Gainhealth is in (a) the healthcare business operating a general practitioner clinic with in-house pharmacy; and (b) healthcare technology business through its e-commerce arm. It is operating currently in Singapore and Malaysia. Book value and NTA of sale shares approximate S$19.5K. Net loss of sale shares amount to S$99.6K for the period from the date of incorporation of 26 June 2020 to 30 April 2021.

CFM Holdings Limited (BBG: CFM) proposed to acquire 51% of SING-SWE MM Biotechnology ("SSMM") for S$6.12m, through an issuance of up to 120m shares at S$0.051 to vendors, subject to approval from shareholders. The new shares represent 37.3% of the enlarged share cap. CFM is currently involved in the sale of nitrile and latex gloves and other PPE, and intends to diversify its business to include viral test and detection kits and other pharmaceutical products. SSMM is currently licensed to distribute the test kits in Europe, Africa, South Asia, South-East Asia and Middle East through the master might prefer private properties that do not face restrictions on sale. In any case, low interest rate and improved economic outlook will continue to underpin demand. The SG property sector is trading at ~40% average discount to RNAV.

Technology.



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