SAC CAPITAL

SG Weekly (15 July 2021 - 21 July 2021)

Market Moves

Singapore is returning to tighter restrictions again for one month till 18 Aug. The renewed ban on dine-in, limits on social gatherings and indoor activities affect mainly F&B and personal service providers. The previous lockdown in May and June could have dented 2Q GDP slightly, which fell 2% over 1Q. Overall, Singapore's output is lifted by strong external demand for the manufacturing sector, which is positive for the tech stocks.

What's different this time round is the Fishery Port, some wet markets and hawker centres are affected and closed for disinfection. This could push food prices higher. The situation raised awareness of food security and supply chain. We believe food companies that have established supply chain or distribution networks could be rerated positively.

The REITs' results gave a glimpse into the rental condition. Suntec City reported 1H21 rental reversion of 1.0% for office (+2.1% in 2Q21), and -15.3% for the mall (2Q21: -7.2%), while committed occupancy stayed above 93%. The logistic assets fare better. ARA Logos Logistics Trust saw rental reversion of 2.4%, and positive portfolio revaluation. Similarly, Mapletree Logistics had a 2.2% increase in average rental reversion for leases renewed.

The banks will be announcing 1H results next week. We expect NIM to stay flat. The cost of

Analysts' Notes

Singapore's leading position as a marine fuel (bunkering) supplier in Asia, a sector valued at over US$30b, is being challenged by China. With its rapid expansion of its port and refining facilities, clocking a ~S$110m spending in expanding the anchorage and building of new shipping channels in Zhoushan, China has been attracting more ships to its shores. The government had also introduced tax incentives that make Chinese fuels more competitive. Our edge over other Asian ports, as described by Drewry Maritime Advisors, is mainly our geographical location – being in the middle of the trade route that links Europe, the Middle East and the US Gulf Coast. Other factors, such as our storage network, efficiency, and timeliness of delivery of fuel help as well. Singapore's bunker sales hit 50 million tonnes in 2020, up ~5% from 2019's level. China's increasing competitiveness in bunker prices, going from an average of ~US$25/t premium over Singapore's prices in 2H2019, to ~US$4/t premium in 2H20, spurred more vessels to bunker there, shooting up its sales volume. Together with its competitive advantage, which is the size of its manufacturing industry, bunker sales rose ~30% to 17.2 million tonnes in the same period. *(Lim Li Jun Tracy)*

May 2021, from high of 13.2% in Dec 2020. But average lending rates are also likely to stay low – loans are repriced at lower rates and growth mainly from mortgage lending. Singapore banks' valuations are back to pre-pandemic levels.

Macro Views

China maintained the one-year loan prime rate at 3.85%. This confirms that the 50 bps cut in Required Reserve Ratio (RRR) effective July 15 was not a directional shift in monetary policy. The RRR cut increase the long-term funding for banks, not the overall liquidity, and was intended to lower the financing costs of the real economy, in particular to the SMEs. The revised standard RRR for Chinese big SOE banks are now 12%, for medium-sized and small banks, 9% and 5.5%, respectively.

US manufacturing output fell 0.1% in June, contrary to a +0.2% forecast. Manufacturing accounts for 11.9% of the US economy, and is being supported by the fiscal stimulus, low interest rates and continued strong demand for goods despite higher demand for services with higher vaccination rates. However, the global semiconductor shortage has pulled the motor vehicle production back, with production at auto plants seeing a decline of 6.6% last month. The production cuts have boosted demand for used cars and trucks, which made up the largest contribution of consumer inflation in recent months.

U.S. jobless claims hit a new pandemic low in week ended July 10, from 386K a week earlier to 360K, showing signs of business improvements and a better labour market. New claims and benefits payments have eased downwards, showing a strengthening of the economy.

Company News

Starburst Holdings Limited (BBG: STARB) announced that its wholly-owned subsidiary, Starburst Engineering Pte Ltd, had been awarded contracts totaling S$4.7 million from two unrelated customers. The contracts are for the supply, delivery and installation of range equipment and specialist works for firearms training facilities in Southeast Asia, Middle East and North Africa. Work has started and expected to complete by August 2022.

Sanli Environmental Limited (BBG: SANLI) bagged a S$72.67 million contract from PUB for the construction and commissioning of new disinfection systems at Johor River Waterworks in Malaysia. This brings Sanli's total order book to S$329.8 million, which is expected to be completed by early 2026.

Qian Hu Corporation Limited (BBG: QIAN) saw a net profit of S$0.9million for 1HFY21, a turnaround from a loss of S$0.5 mil a year ago. This came on the back of a 19.5% gain in total revenue to S$39.7 million, largely boosted by fish segment (S$15.4million) and accessories segment (S$20.5 million). Operating margin turned positive with operating profit standing at S$1.2 million. Qian Hu expects revenue to continue growing and profitability to maintain in 2HFY21 as it continues its expansion plan and strengthening of their domestic network within each of their export hubs in Singapore, Malaysia, Thailand, Indonesia and China to mitigate the risk of global supply chain disruptions.

establish JV Sydrogen, which aims to promote a more widespread commercial adoption of hydrogen energy as an energy source, by developing new components and solutions to overcome existing limitations to tackle global climate change. Nanofilm will contribute up to S$21 million in cash, and transfer its hydrogen energy business and licence of the Group's intellectual property relating to the business for a 65% shareholding. Temasek will contribute the remaining cash, making total initial investment amount to approx. S$140 million. The proceeds are intended to be used for research and development and the construction of production capacity.

signed a sales distribution agreement with Tocad Energy Co. Ltd to distribute its "CUBOX" line of portable lithium-ion battery packs in Japan. The battery packs can be used in industrial, household and medical settings, acting as an emergency power source for instances usage in server rooms, as well as life support systems and ventilators in hospitals. The battery packs can also power ultra-low temperature freezers that are used to store COVID-19 vaccines, which is critical for delivery of vaccines to underpopulated areas in Japan.