SAC CAPITAL

SG Weekly (22 July 2021 - 28 July 2021)

Market Moves

The HK and China markets had a rough ride this week. The wave of regulatory actions intensified - on online education, after-school tuition, real estate and internet including music, food delivery, e-commerce, WeChat and other apps. The pressure on internet stocks will continue till end of this year, as the Ministry of Industry and Information Technology stated that one of its priorities is to further regulate the sector in the next six months. We expect more risks for the Chinese companies. Singapore stocks with China exposure also felt the heat.

MAS lifted dividend cap on Singapore banks and finance companies but called for prudence in discretionary distributions. We take this to imply that banks are likely to stick to and not exceed the level of payout in 2019, translating into yield of 3-4%. We also do not expect any writeback of provisions in 2Q results due to be out on Aug 4 and 5. The mobility restrictions imposed in July-Aug is a setback for the economy and weakened consumer sentiment.

REITs earnings reports this week surprised with higher payouts. Ascott Residence paid 2.045 ct/unit in 1H21, 67% of FY20's 3.03 ct/unit, derived from gain on divestment. ART has been able to book substantial gains on divestment of hospitality assets which buyers convert to residential use. Singapore market remains attractive to yield-seeking investors. The healthcare players also booked strong earnings

Analysts' Notes

Four global companies confirmed their office locations in the upcoming Punggol Digital District, further cementing the masterplan announced 3 years ago to make Punggol the digital district for technology players. These companies are Boston Dynamics, Delta Electronics Int'l (Singapore), Singapore's Group-IB and Chinese conglomerate Wanxiang. Apart from jobs creation, this would boost Singapore's tech innovativeness, which will bring us closer to being a tech powerhouse in SEA, especially with the rise of technologies like artificial intelligence and blockchain since the emergence of Covid-19, and the need for enhanced cybersecurity becoming more prominent than ever. Slated to slowly open in 2023 – 2024, we believe the attractiveness of the property scene (residential, commercial) in Punggol would increase as more companies come and set up offices here, though this may also have a potential impact on the rental scene in our CBD area. *(Lim Li Jun Tracy)*

Sanli: FY21 is likely to be the trough for earnings. FY Mar 21 revenue declined 9.8% to S$60.5m, better than expected factoring in a 2-month lockdown in Apr-May 2020 when all construction works were halted, labour shortage and additional costs for COVID preventive measures. Net profit was 5.1% higher at S$0.3m, helped by a S$3.1m government grant. FY21 is likely to be the trough for earnings. With a vaccination rate hitting 80% by Sep 21 that enable further relaxation of movement restrictions

S$105m), despite the absence of foreign patients, partly lifted by COVID testing and vaccinations. HC Surgical doubled net earnings to S$8m for YE May 21.

mm2 Asia received an offer to sell at least 80% of its stake in the cinema business for up to S$120m net of debt, translating into net proceeds of S$50m (if 100% of cinema is sold). We estimate the deal will cut mm2's net debt to S$87m (Mar 21: S$257m), and put a floor value to the cinema operations. The company is still proceeding with its plan to list the cinema business. Its outlook still hinges on the lifting of safe distancing measures.

SembMarine 1H21 net loss of S$647m (1H20: loss S$192m) was 10% larger than market's estimates, on a 7% decline in revenue. It took S$472m net provisions for higher potential costs and delay in project executions. It expects a smaller loss in 2H21 due to insufficient revenue to cover fixed overheads. It is still short of 4,000 workers. Free cash flow was –S$24m, compared with –S$122m in 1H20. Net debt at S$2.8m brings gearing to 0.9x. Management reiterated that the S$1.5bn rights issue is critical to sustain its operations. Orderbook at S$1.78bn, including S$0.6bn secured in 1H21, suggests an uptick in orders going forward.

SIA reported a smaller 1Q22 loss of S$409m (1Q21: loss S$1,123m) on 52% higher revenue. Revenue passenger-km rose 10x and 12x for full service and low cost carrier respectively. Breakeven load factor improved to ~41% for full service due to 75% cut in unit cost. But passenger load factor, at 15.6% is still way below. Cargo remains strong, with load factor of 89.1%, against breakeven load factor of ~45%. With cargo load factor at this high level, it might need new capacity to grow.

of ~14% (from 7.3%). Demand for water and waste management is intact and more infrastructure contracts would be dished out. BUY. Our 12-month price target is S$0.249. *(Peggy Mak)*

MAS raised headline inflation forecast for 2021 to 1 – 2%, as consumer prices rise. Core inflation forecast was left unchanged at zero to 1%. Core inflation excludes private road transport and accommodation costs. The CPI rose 2.4% yoy, taking the all-items inflation to 1.5% in 1H21. In a joint statement, MAS and MTI said that the "uncertainty in the economic outlook will weigh on consumer sentiment and hence (the) price increases in the near term". They also expect the CPI to ease in 2H with negative output gaps in some of our trading partners.

Singapore June manufacturing output rose 27.5% yoy, but down 3% mom seasonally-adjusted. Overall output was 19.8% higher than June 2019, led by semiconductors (62.1%), precision engineering (35.9%) and medical tech (43.7%). Transport engineering, while up 28.3% yoy, was still 20% below 2019's level, due to weaker offshore/marine (-33%) and aerospace (-18%). Output growth in 2H will slow down as the base effect fades, pent-up demand driven by economic re-opening in the developed countries eases, and the developing countries' manufacturing activities recovers from COVID shutdowns.

Far East Group Limited (BBG: FEG) had entered into a subscription and shareholder agreement with Comfresh Group Pty Ltd to acquire a 20% stake for A$7.3m. Comfresh Group supplies fresh produce to retailers, supermarkets and wholesalers in Australia. The agreement will enable FEG to diversify from its core business as a provider of refrigeration and air-conditioning systems and products into the business of production and distribution of fresh produce. The stake is expected to contribute about S$0.7m pretax profit to Far East.

HC Surgical Specialists Limited (BBG: HSP) posted 39.7% increase in revenue for FY2021 to S$23.4m. Its 2H results saw a 78% yoy jump in revenue. The increase was largely due to pent up demand for endoscopic procedures post circuit breaker. Net profit increased 100.7% yoy to S$8.0m. The board is proposing a final dividend of 2.3 cents. Together with interim dividend of 1.7 cents paid in February, total dividend for FY2021 amounts to 4.0 cents per share, representing a 7% yield.

IX Biopharma Ltd (BBG: IXBIO) entered into an agreement to supply IXBio's sublingual medicinal cannabis wafers to Organic Genetics Group Limited (OGG), a medicinal cannabis company in New Zealand. The agreement grants IXBio access into the New Zealand pharmaceutical market, through OGG's intensive network of pharmacies and healthcare clinics. Supply of the wafers will commence after securing approvals from the New Zealand Ministry of Health.

T T J Holdings Limited (BBG: TTJ) secured several structural steel contracts valued at S$19m. This brings the Group's total order book to S$167m which is expected to be substantially completed between FY2021 and FY2023.

Memiontec Holdings Ltd (BBG: MHL) secured brings its order book to S$81.6m. It renewed with Kuraray the exclusive distributorship for 3 years for MBBR Technology, which employs PVA gels beads in the biological wastewater treatment. The PVA gel beads have been installed in over 400 wastewater treatment plants worldwide.