SG Weekly (12 August 2021 - 18 August 2021)

Market Moves

A confluence of negative factors – Fed's talk on tapering, Taliban consolidate control in Afghanistan, Malaysia's change of control – cast a pall on the Singapore market, eclipse the rosy 1H21 earnings season and return-to-office boost for the retail and F&B sectors.

Afghanistan is a major producer of minerals, including copper, lithium and iron ore. Prices of these commodities have risen with demand recovery and higher output for electric vehicles, tech products and investments in renewable energy. Any cutback in output would jolt prices higher, positive for stockists such as Soon Lian and Choo Chiang, but negative for producers who do not have pricing power.

Malaysia is in the midst of naming a new Prime Minister, after former PM Muhyiddin Yassin and his cabinet resigned on 16 Aug. The country have hit record high of >20,000 daily COVID cases, despite the lockdown which affected production and investments, while about 35.4% of its population is fully inoculated. The political turmoil further set the country back. Ringgit weakened to US$1:RM4.24 (Dec 2020: 4.01). Fundamentally, Malaysia has a thriving tech sector. Penang has been attracting semiconductor players, such as Korean's Simmtech Holdings, who announced plans to set up US$120m plant, which will be 20% of its global capacity. Singapore companies such as Grand Venture and UMS are also expanding their

Analysts' Notes

Megachem: 1H21 beat our expectations (93% of our FY21 forecasts). The earnings tailwinds are: 1) demand uncertainty resulting in customers' preference to outsource from them than to keep stock; 2) supply chain bottleneck leading to customers sourcing nearer to their manufacturing bases. Megachem's 12 distribution centres globally give them the edge; 3) surge in demand for specialty chemicals driven by cleaning and dis-infection, technology and healthcare sectors; 4) firmer oil and commodities prices leading to higher prices of specialty chemicals which could be passed on to customers. These trends are likely to stay post-pandemic as customers are more wary of supply disruptions, and more capex into tech and healthcare capacity. *(Lam Wang Kwan)*

Koufu: 1HFY21 revenue rose 18.8% yoy from S$89.0m to S$105.7m, with the F&B retail business segment increasing by 37.4% yoy and the outlet and mall management segment increasing by 2.7% yoy. With an improvement in footfall at food outlets, Koufu managed to increase rental income. PATMI surged 3.9x. In 1H, Koufu has opened 1 new food court and 6 F&B kiosks/stalls. We expect these leases were locked in at lower rental rates, lowering expenses until they get renewed. As at 30 Jun 2021, Koufu has net cash of S$68.8m which makes up 64.9% of net assets. We expect further HoH improvements in 2H, with i) new outlet contributions, and ii) as Singapore moves

Singapore equities will continue to ride on the re-opening themes, but volatility will rise with the uncertainties in the global markets.

(Lim Li Jun Tracy)

UMS: 1H revenue rose 54.8% yoy from S$75.2m to S$116.4m. Semiconductor segment rose 52.8% yoy from S$68.9m to S$105.3m, making up 90.5% of revenue, as both integrated system and component sales increased, driven by high capex from global wafer fabs. PATMI rose 1.45x to S$32.3m. In 1H, the Group completed the mandatory offer for JEP, which ended with a 71.39% ownership by UMS. Aerospace prospects are still rocky for now, but this may change with the potential reopening of borders. At the moment, JEP is adding some supply capacity for UMS. Based on consensus estimates, AMAT's upcoming Q3 result release is expected to reflect a 6.5% QoQ growth (or 35.3% yoy), trickling down to strong expected sales for UMS. Along with JEP's consolidation, we expect HoH improvement in 2H. The Group also announced a proposed 1 bonus share issuance for every 4 existing shares to increase their trading liquidity. HOLD. TP S$1.80. (Link) *(Lim Li Jun Tracy)*

Kim Heng: Better charter rates and utilization for offshore vessels, together with Kim Heng's pursuit of cable-installation projects for offshore wind-farms in Taiwan lifted 1H21 revenue by 64% yoy to S$28.9m. Renewable energy accounted for 28% of revenue (1H20: 10%), and Taiwan is now 35% of topline (1H20: 10%). Chartering revenue nearly doubled to S$12.4m, with better vessel utilization (50 – 70%) and ~40% rise in average daily charter rates. Rebound in economic activities post pandemic is expected to drive energy demand. Kim Heng's positioning in both the renewable energy and offshore O&G sectors are likely to sustain topline growth in 2H. 1H21 net loss widened to S$3.6m due to lower government grant and higher operating costs. Net debt is stable at S$35.3m, and net gearing of 62%. *(Lim Shu Rong)*

+29.4%) and demand from tech sector lifted 1H21 revenue by 42% to S$24m (73% of FY20). Sales to the precision engineering take up 63% of sales. Marine demand fell with lower output of aluminium vessels used for crew boats and passenger boats. Net profit of S$2.3m (1H20: loss S$0.9m) translates into annualized PE of 3x and EV/EBITDA of 2x. Stock trades at 0.4x book. Revenue and profit run rate look sustainable into 2H21. Delivery lead-time has lengthened to 4 to 5 months, and mills are operating at near full capacity, thus keeping prices firm. *(Peggy Mak)*

Aoxin Q&M Dental Group: Plans to acquire 49% of Acumen Diagnostics Pte Ltd for S$29.4m, or 4.1x FY21E annualized PE. The acquisition will take Aoxin from 1H21 net loss of RMB6.1m (S$1.3m) to net profit of S$2.3m. Acumen, 51%-owned by Q&M Dental Group, is one of 6 appointed by the Health Promotion Board to provide COVID-19 swab and testing services. Q&M holds 43% of Aoxin. The acquisition will be paid with 127.3m new Aoxin shares at S$0.231 each, or 25% of enlarged share capital. At current price of S$0.176, Aoxin trades at 19.6x FY21E PE post acquisition.

Although the health authorities have mandated ART self-tests for some sectors, PCR tests are still the tests used by the authorities to confirm infections. The number of daily tests conducted is still on the rise. According the MOH, total PCR tests per day averaged 60,000 to 70,000. *(Peggy Mak)*

Macro Views

SG July NODX rose 12.7% yoy and 2.2% mom, led by chemicals (+42.5% yoy, +5.5% mom), while electronics eased slightly. Semiconductor output continued to grow 12.8% yoy and 4.2% mom, mirroring the momentum of the US chip makers. China (+58.5%), EU (+61.5%) and Taiwan (+37.0%) were the largest growing

Company News

Medi Lifestyle (BBG: IEV) entered into exclusive distribution agreements with Lansion Biotechnology Co., Ltd to distribute COVID neutralising antibodies test kit and analyser under the brand name ‘LansionBio’ in Singapore and Malaysia. The agreements are valid for a term of 6 + 6 months. The product needs to be registered

(+28.1%), slower growth in retail sales (+8.5%) and industrial output (+6.4%).

SG developers saw an 82.2% surge in private home sales in July, from 872 units to 1,589. Almost two-third came from the suburbs or Outside Central Region (OCR). The jump in sales could be due to the fear of missing out, and of further price hike.

US retail sales dropped 1.1% in July, more than the forecasted -0.3%, following the 0.7% increase in June, weighed mostly by the declines in motor vehicle and e-commerce sales. Restaurant spending increased, although moderately compared to previous months. The Delta variant is posing a risk to economic activity and could curb demand for services. Higher prices for things such as groceries, dining out, personal care and apparel may limit discretionary spending in the coming months.

Medi Lifestyle runs 2 postpartum care centres and 1 chiropractic and physiotherapy centre in Malaysia. These operations, which incurred net loss of RM4.1m in 1H21, were impacted by movement control measures. It aborted plans to develop a postpartum centre in Singapore.

KTMG (BBG: KTMG): Economies re-opening in the US, UK and EU helped apparel maker KTMG grew 1H21 revenue by 13.1% to S$28.3m. Ongoing US-China tensions and ban on products using cotton from Xinjiang diverted orders from China to Malaysia and Cambodia. Malaysia's MCO restrictions on capacity (only 60%), higher input and logistics costs sliced off 1.3ppt from gross margins to 15%. It turned in net loss of S$0.2m in 1H21.

Koyo International (BBG: KOYO) had been awarded a S$5.7m contract for the provision of mechanical and engineering services. Orderbook stands at S$126.7m, to last till 2026.

Beng Kuang Marine (BBG: BKM) recorded 30% increase in 1H21 revenue to S$27.9m, with more work for infrastructure engineering (83%) and corrosion prevention (+85%). Manpower constraints in Singapore diverted fabrication orders to Batam, where Beng Kuang operates a yard. Net loss S$2.5m was dragged down by shipping division. The 2 livestock vessels faced downtime from crew shortage, longer turnaround and repairs.