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This is SAC weekly newsletter for 19 Jan 2022

Market Moves

China Q4 GDP growth of 4.0% yoy was held up by strong exports, which grew 23.1% yoy, and +43.6% vs 4Q19. Fixed asset investment, however, fell 0.9% yoy, as weak FAI for infrastructure (-2.9%) and real estate (-7.7%) eclipsed stronger manufacturing growth (+10.7%). In particular, Dec saw a steep decline in property investment (-13.9%), which was also 5.9% lower than Dec 2019. We expect a weak Q1 with restrictions from COVID lockdowns and the hosting of Winter Olympics. The decline in property investment that began in mid 2021 is likely to ease off in Q2, with modest policy easing. The impact could be felt among China-linked companies. For instance, GKE's 1H22 (Nov) net earnings (-44% yoy) were dragged down by 30% decline in RMC sales.

After the 10bp cut in policy rate earlier this week, PBOC further cut the 1Y and 5Y Loan Prime Rate on 20 Jan, as it employs macro policy to rejuvenate the economy. We expect more RRR cuts ahead, thereby lowering interest rates and reduce the strength of the RMB. Higher liquidity at the banking system might reduce lending opportunities for First Sponsor and Yangzijiang. That said, credit risks would improve with lower rates.

On 22 Dec, Singapore announced a freeze on VTL ticket sales till 20 Jan. The quota would be reduced by 50% when the freeze is lifted on 21 Jan. The market is hoping for the 50% cap to be lifted, but we are doubtful, given climbing daily COVID cases in many countries. SIA's Dec passenger load factor jumped to 46.5% (Nov: 29.1%), led by holiday and VTL travels, which might not sustain in the next few months. Cargo load factor fell to 78.8% (Nov: 83.9%), and load fell 0.6% mom, the first decline since 2020. Though this is only one month's data, it might suggest that demand has softened as the developed countries grappled with the spread of Omicron. The supply chain bottleneck might also have eased with the Baltic Dry Freight falling to 1570 (Oct 21 peak was 5680). The trough in Feb 2020 was 1285.

Sabana REIT kicked off FY21 (Dec) earnings report with 10.5% higher DPU of 3.05 cents, translating into yield of 6.7%. What's encouraging are the step-up in occupancy rate (+8.9ppt to 85.4%) and rental (+10.5%), resulting in a 3% increase in NAV to S$0.52. Despite its small asset size, it generated above average NPI yield of 5.5% in FY21. FY21 DPU growth for other REITs are likely to be more muted, given that most have funded their acquisitions through equity raisings during the year.

UOB announced a S$4.9bn acquisition of Citigroup's consumer business in Malaysia, Thailand, Indonesia and Vietnam, which would double its retail customer base in these 4 countries to 5.3m. The acquisition, priced at 1.22x P/B, is expected to lower CET1 ratio by 70bp to 12.8%, but this would rise to above 13% by 2023. The acquisition is expected to complete in 1Q2024. Transaction costs of about S$700m and part of the goodwill might be expensed off over FY22/23. UOB reiterate that 50% dividend payout will be maintained. The acquisition is positive for UOB as it will drive S$1bn in annual income uplift (about 10%) and asset growth (+3% in gross loans). DBS is also rumored to be interested in acquiring Citigroup's Taiwan operation, whose consumer portfolio size is as large as UOB's acquisition.

Trading of SPACs commenced on 20 Jan with Vertex leading the pack. The units are traded cum warrants till 6 March, after which the share and warrants will trade separately. Pegasus Asia will commence trading on 21 Jan. Novo Tellus launched its IPO on 20 Jan, and is expected to start trading on 27 Jan.

Analysts' Notes

GKE Corporation | 1H22 results missed our expectations. Revenue of S$55m and net profit of S$3.8m were 43% and 34% of our FY22 projection. (S$128m and S$11m) Decline in revenue is attributed to a drop in RMC sales in China (-35% yoy). Net profit is lower due to smaller government support, higher salaried costs and allowance made on expected credit loss (S$0.9m). Liquidity crunch in China property market could disrupt ongoing projects and further slowdown sales for the Group's RMC business. 2H22 RMC sale will be weaker than 1H22 accounting for offpeak winter season and CNY holiday. Downturn in China property market will slow down investment in the coming year as well. We are positive about the Group's logistic business on improving warehouse utilisation rates and contribution from higher yield storage goods in FY23. Previous TP: S$0.171. New TP under review. (Lim Shu Rong)

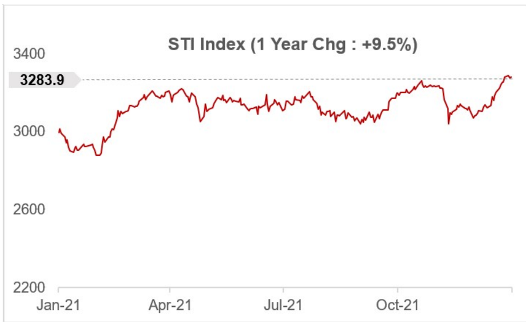
SLB Development | SLB enjoyed a 116% uplift in 1HFY22 (Nov) net profit to S$12.0m, derived from 1) more units sold and construction progress at 51%-owned industrial property development project InSpace; 2) construction progress at projects held at associate level, Rezi 24, Affinity@Serangoon and Riverfront

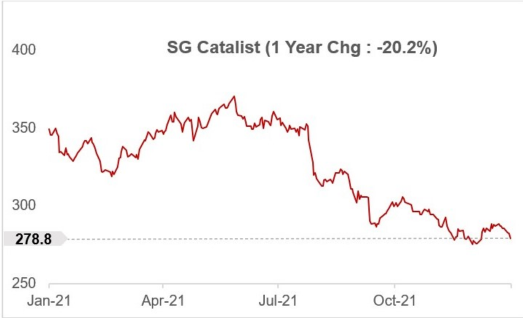
Company News

Totm Technologies Limited (BBG: YINDA) posted a 2.6x jump in revenue for its 1H22 owing to contributions from its biometrics business acquired in April 21. Losses widened correspondingly to S$5.7m with the increase in operating activities and corporate exercises undertaken to diversify their business. Totm is trading at a P/B of 2.6x and is in a net cash position of S$7.5m. Totm has proposed to dispose its Telecommunication business on Dec 21 in view of increased market competition and challenging operating conditions arising from the pandemic. The telecom business is in a loss-making position.

Residences, which are nearly fully sold; and 3) rental income from Thye Hong Centre, which is undergoing AEI. The Sep 20 acquisition of Thye Hong Centre for S$112.5m has raised net earnings to 0.76x. This freehold asset is zoned for B1 light industrial use, though there were talks that it might be converted to residential use. SLB took a 10% stake in the S$650m enbloc purchase of Peace Centre / Peace Mansion (~S$1,388/sf ppr) to develop into 319 commercial/residential units. It also has a 9-10% stake in Gaobeidian in the PRC and an effective 5% stake in a property fund to invest in UK and Australian assets. Looking ahead, InSpace will remain the key contributor to earnings and cash flow, offset by AEI spending for Thye Hong, we believe. SLB, like other developers, faces dearth of landbank and impact of the cooling measures imposed on 16 Dec 2021. It trades at 0.6x P/B. (Peggy Mak)

Avi-Tech Holdings | In late 2021, the company undertook a corporate restructuring whereby shareholders swapped shares in Avi-Tech Electronics into shares in a holding company Avi-Tech Holdings (SGX code: 1R6). Avi-Tech Electronics, the operating entity, is now a 100% -owned subsidiary. The benefits of the new corporate structure are: 1) ring-fence the assets and operations of Avi-Tech; 2) streamline the corporate structure. New businesses could be directly held by the holdco; and 3) allow for a more efficient capital structure for the group. AVH provides burn-in services, manufacturing and printed circuit board assembly and engineering services for semiconductors, with a niche in the high-mix low-volume auto sector. The share is priced at 4.3x FY21 (Jun) EV/EBITDA, 7.2x PE (ex-cash) and 1.2x P/B. (Peggy Mak)





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