SAC CAPITAL

This is SAC weekly newsletter for 3 Nov 2021

Market Moves

Malaysia tabled a 2022 budget of RM334.1bn, the biggest expenditure in its history. The budget sent shock waves through the markets with a one-off 33% prosperity tax on corporates' chargeable income above RM100m. Income below that will still be taxed at 24%. We estimate this will cut FY21 profit for Riverstone by ~12.6%, UG ~8.5% and Top Glove ~15%. The impact on UOB and OCBC is ~2-3% as Malaysia contributes 12.9% and 18% of 1H21 pretax profit before allowance and provisions, respectively.

UOB and OCBC posted muted 3Q earnings, with profit before allowance +2% and -4% qoq. Lower credit provisions lifted net profit by 4% and 5% qoq respectively. One positive is loans growth has gained pace, with 9% for UOB and 4% for OCBC. NPL might rise in subsequent quarters when loan moratoria are lifted in Malaysia, but this is not expected to have a material impact on credit costs (UOB: 20%, OCBC: 21%), in our opinion. DBS will announce results on 5 Nov. We are neutral on the banks.

Indonesian energy minister issued a new Domestic Market Obligation (DMO) ruling that caps the price of coal sold to cement and fertilizer sectors, similar to the existing requirement to sell to the state-owned electricity company PLN. At least 25% of coal output must be sold domestically from 1 Nov to 31 Mar 2022. The impact is likely small, as the bulk of coal goes to the power producers. Besides, the miners might choose to sell to other sectors with no price cap. But policy changes that disrupt markets raised uncertainties and risks. China has stepped up coal production and limit coal price speculation from Oct, and coal prices have corrected 42% from early Oct. Lower import demand from China is a bigger worry for Indonesian coal miners.

Yangzijiang 3Q's shipbuilding revenue rose 44.5% yoy, but gross profit was 30% lower. Gross margin, which fell 14 ppt to 13.2% was hit by higher steel price, as it delivered ship orders secured before the steel price surged. Fortunately, steel prices have eased 24% from early Oct, and the company has commenced work on the orders secured in 2021 which have priced in higher steel prices. The US$8.9bn orders on hand is a record. We think new ship orders is near its peak, as high prices and potential changes to environmental rulings would deter shipowners to place orders. YZJ's net debt investments shrunk 34.3% to RMB10.9bn, which will lower future interest income but also improve its risk profile. Real estate makes up 26% of its loans book but risk is contained at coverage ratio of 2.9x. The catalyst will be a spin-off of the debt investments operations. Share is trading at discount to book of S$1.72, largely reflect concern over China's regulatory tightening.

At the other end of the spectrum, Sheng Siong's 3Q gross margin rose 2 ppt to 29.0%. It enjoyed operating leverage through higher turnover (3Q: +6.4% yoy) and greater share of higher-margined fresh products sourced directly from its distribution centre in Malaysia, when the Fishery Port and some wet markets were closed due to the spike in COVID cases. Sheng Siong's strong operating metrics – ROE 36%, ROIC 71%, net cash S$215m – are hard to beat. We like its resilient earnings model, and expect higher growth when HDB opens the tenders for shop space in 2022.

The highlight of the week was the counter bid for SPH from HPL, Capitaland and Mapletree consortium. At S$2.10 cash for every SPH share, the price difference with Keppel's existing bid is marginal, but this is still perceived as more superior than Keppel's part cash and part units in Keppel REIT and SPH REIT. In addition, the new offer might trigger a GO for SPH REIT at a minimum of S$0.964 per unit. SPH's price hovers at S$2.12, as the market expects Keppel to revise its offer, or a third bidder to emerge.

The Fed will reduce its bond-buying program by US$15bn per month, which means QE will end by mid-22. We think a US rate hike will take place in late 2022 or early 2023. Central bankers in ASEAN are likely to hold rates low for longer to give time for the economies to recover from the pandemic.

Analysts' Notes

GlobalFoundries | a global chipmaker, priced its IPO at US$47 per share on NASDAQ last week, to raise US$2.6billion, giving them a total valuation of US$26 billion based on IPO price (price range: US$44.48 – US$59.99 over the past week). Mubadala, an Emirati state-owned holding company, controls about 89% of total stake post-IPO. GFS is the third largest foundry by revenue, after TSMC and Samsung. Previously, GFS announced a US$4 billion investment into Singapore expansion which is expected to begin production in 2023 and be fully operational in 2024. For 1H21, GFS had a net loss of US$301 million (revenue approx. US$3.04 billion), as compared to a net loss of US$534 million in 1H20. Singapore's semiconductor sector's average P/E is ~18.2x. *(Lim Li Jun Tracy)*

Elite Commercial REIT | 3Q21 revenue and distribution income improved 61.7% and 71.8% yoy mainly contributed by the successful acquisition of 58 UK commercial properties in

Company News

ValueMax Group (BBG: VMAX) launched its first initial issue of a S$100m 3-year 2.3% commercial paper in digital securities and listed on the ADDX digital platform. The first tranche is expected to raise S$10m-20m from accredited and institutional investors. This follows hard on the heels of its May 2021 rights issue that raised S$41.8m. Valuemax's revenue from moneylending and retail and trading of jewellery and gold grew 82.6% and 41.2% yoy in 1H21.

Livingstone Health Holding (BBG: LHH) grew 1H22 revenue and net profit by 97% and 56% yoy, driven by return of patient load, more doctors recruited, set up of a new allied health service offering, and the sale of Sinovac Vaccine. The Group now has 16 medical doctors at 14 clinics, and plans to add a Gastroenterology practice in Nov. Orthopaedic is the largest segment, accounting for 43.9% of total revenue.

ISOTeam Ltd (BBG: ISO) released a slew of

March. Other positives include 100% rent collection in advance for 4Q21 and future tax savings from its successful technical listing on TISE (19% to 15%). However, ~63% of the leases are reaching the 5-year lease break option mark in 2023. Negotiation has started and the leasing decisions are expected to be finalised by Mar 2022. Management expects usage of DWP to remain high despite the end of the furlough scheme in the UK.

DWP had recently exercised its lease break option for the Epsom property. However, the Manager has submitted a proposal to retain DWP as tenant for DWP's consideration. An alternative option is for the Manager to sell the asset at £2.9m (~21% above valuation). Elite is currently trading at a PB of 1.1x and at an annualised yield of 8.2%. *(Lam Wang Kwan)*

good news: 1) it is rolling out the novel plant-based pesticide that can massively reduce cockroach infestations at HDB blocks and NEA market and food centres. The product has received the green light for commercial use and sale by the National Environment Agency; 2) it entered into a collaboration agreement with H3 Dynamics to be the exclusive master agent to conduct building façade inspections using autonomous drones for HDB, town councils, commercial and condominiums; ISO has secured three projects thus far. Under the legislature passed in March 2020, about 4,000 buildings are expected to be inspected annually. ISO Team will also use the engineer-reviewed data to carry out façade repairs and restoration works; and 3) It secured S$22.3m new contracts in 3Q to lift orderbook to ~S$187m.