This is SAC weekly newsletter for 5 Jan 2022

Market Moves

FOMC's Dec 15 meeting minute that was revealed on 5 Jan point to a stronger intent to raise rates earlier, possibly in March 2022. US 10Y treasury yield jumped to 1.703%. The financial and value stocks are winners in a rising rate environment.

The advanced estimates of 4Q21 private housing and HDB resale prices surged 5.0% qoq (3Q21: +1.1%) and 3.2% (3Q21: +2.9%), respectively. On a yoy basis, prices were 10.6% and 12.5% higher. The data were compiled before the cooling measures on 16 Dec 2021. Transaction volume could have shrunk after that as the additional ABSD discouraged HDB upgraders and foreign buyers. Singapore's price gain for 9M21 (+7.5% yoy) has surpassed HK (+3.5%), though lower than South Korea (+16.4%), Japan (+11%) and Taiwan (9.8%). Thus far, rental has risen in tandem (9M21 +7.2%), which could hold up prices in the near term, unless income growth could not catch up, or borrowing costs increase. We do not rule out further measures to curb price increase.

Caixin China Manufacturing PMI rose to 50.9 in Dec 2021 (Nov 49.9), pointing to stronger output ahead. And this is mirrored in the strong shipping demand that saw a doubling in Shanghai Containerized Freight Index to an average 4,887 in Dec yoy. SCFI is now 462% above that in May 2020. The export sectors are likely to lead China's GDP growth this year, while domestic consumption might be curtailed by the regulatory clampdown. The tech sector has taken the brunt. Kuaishou is said to let go 15% of its e-commerce staff, after iQiyi was reported to reduce 20% of its headcount across departments.
Indonesia announced the ban on coal exports for Jan 2022 to help PT PLN replenish its stock, but said it would review it after importers urged for high caloric coal to be exempted. About 73% of Indonesian coal exports go to China, India, Japan and South Korea. ICE Newcastle monthly coal future jumped on the news, with Australian mines the main beneficiaries. Separately, Indonesia also spelt out the domestic market obligation (DMO) that stipulates producers must first meet their DMO quotas before they can export. In the past, producers only need to ensure they meet their DMO quota at the end of each year. The DMO price is capped at US$70/ton, way below than export prices of US$190 currently. The ban on exports also suggests a growing demand for energy due to a stronger economy, which might also fuel demand for biodiesel and palm oil.

Analysts' Notes | Company News

Koda | The impact of the fire at its factory in Vietnam is likely to be minimal. The affected factory does packaging of finished products and upholstery works for sofa. Its packaging process does not involve a lot of machinery and damages are insured. Other factories are also involved in the packaging process. The Group plans to clear out some space and resume packaging works from the affected factory. Separately, its factories in Malaysia are located away from the flooded areas in Johor and thus, productions are unaffected. Koda's factories in both Malaysia and Vietnam are currently running at full capacity. Koda has ~US$43-44m of orders on hand to fulfil in the next 6 months. *(Lim Shu Rong)*

Mapletree North Asia Commercial Trust | Mapletree Commercial Trust is acquiring Mapletree North Asia Commercial Trust via a share swap (1 MNACT = 0.5963 MCOT) or cash and shares (S$0.1912 cash and 0.5009 MCOT). The sponsor of the two REITs, Mapletree Investments is opting for all scrip, hence the maximum cash outlay for MCOT is S$417.3m.

The deal priced MNACT at S$1.1949, about 1x P/B, but 7.4% premium to last price before the announcement. MCOT was priced at premium to book of ~S$1.72. Prices of the two REITS are expected to move in tandem with the exchange ratio.

MNACT has a higher gearing of 41.4%, not counting the S$250m 3.5% PERPs, which partly explains the discount to book and DPU yield of 6.2% (vs MCOT’s 3.4%) before this announcement. MCOT’s gearing will rise from 33.7% to 39.2% if all other shareholders opt for the part-cash option. We think any future acquisitions could be funded by further cash calls. MNACT unitholders should take the cash and scrip option, in our view. *(Peggy Mak)*

United Global (BBG: UTG) The offeror has received ~92.75% of the total shares issued and will exercise its right to acquire the rest of UTG at S$0.45/sh. The shares will be traded till offer close at 5.30 p.m. on 25 Jan 2022. UTG will subsequently be delisted.

Maxi-Cash Financial Services Corp. (BBG: MCFS) is offering to buy back S$10m (out of total S$50m) worth of outstanding 6.35% notes due July 2022 from the note holders. Thees notes are trading at 7.9% yield to maturity. At the same time, note holders have the option to exchange their notes for new 6.05% notes due Jan 2025.

Vividthree Holdings Ltd (BBG: VTH) is investing in GammaR through a S$4.08m convertible loan notes at 3.5% interest rate per annum for 3 years. GammaR will be using the funds to develop a platform that provides NFT game developers the resources to commercialize their innovations. Through the investment, the Group is able to capitalize on the rapid growth of NFT and blockchain related games in the gaming sector. The loan is funded internally and if necessary, through a fund-raising exercise.

Best World (BBG: BEST) is launching a tender offer to buy back 10% or 54.4m shares at S$1.36 from minority shareholders. This amounts to S$74.8m. It has S$373.3m in net cash and cash equivalent as at Sep 21, or 82.5% of net assets.

The major shareholders that hold collectively 51.56% will not participate in the offer. Their stake will rise to 57.3% if all 10% shares were bought back and cancelled. Best World remains suspended as SGX has regulatory concerns on its sales and distribution model in the PRC. In Nov 2021, it announced that it is looking at options to delist.

Cromwell European REIT | CEREIT is acquiring 3 light industrial / logistics properties (1 in the United Kingdom and 2 in the Netherlands) for €57.8m (~S$88.4m). The purchase consideration is at ~3.9% discount to the independent valuation. The properties are currently 100% leased with a blended WALE of ~8 years and is expected to provide a blended NOI yield of 5.6%. The acquisition will increase the weightage of light industrial / logistics assets to 41% of CEREIT's portfolio, bringing it closer to its target of 50%. The purchase will be funded by proceeds from its November S$100m perpetual securities issue. CEREIT is currently trading at FY21E annualised yield of 6.7% and a P/B of 1.0x. *(Lam Wang Kwan)*