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This is SAC weekly newsletter for 12 Jan 2022

Market Moves

Tax hike looms large with the 2022 budget round the corner on 18 Feb. The much anticipated 2 ppt hike in GST is said to take place as early as April 2022. This could lead to a spike in retail sales before the hike, benefitting consumer goods, supermarkets and luxury goods retailers. Higher carbon tax and introduction of wealth tax are also on the cards. We think a wealth tax, if implemented, is likely to be applied to immovable assets, such as real estate, as these are less liquid and easier to administer. This could impact the demand for high-end residential properties.

Vertex Technology Acquisition Corporation Ltd kicked off the first SPAC IPO on SGX to raise S\$200m, via issuance of 40m units at S\$5, each unit comprises 1 share and 0.5 warrants (exercise price S\$5.75). However, 0.2 warrants will be issued only upon business combination and only to shareholders who do not redeem before that. The promoter is rewarded with 20% shares (at low value), which are locked up till 12 months after business combination (49%) and upon hitting return targets. The sponsor will also subscribe up to 20m warrants at S\$0.50 each to pay for IPO expenses.

SPAC shareholders face dilution when it issues new shares and pay cash to acquire the target company. If there is significant redemption, the SPAC would need to issue more shares or take on debt to meet the purchase consideration. As the sponsor is depositing 100% of the gross proceeds (SGX rules require a minimum 90%) into the escrow account, shareholders may also redeem their shares (at S\$5) and hold on to the warrants (but only 0.3 warrants) to ride on any potential upside upon business combination. The acquisition target is likely to be in the high-growth tech sector. The business combination has to acquire 100% of the target company, and assuming a 20% dilution, the value of the target is about S\$800m, which is small in comparison to those listed in the US.

Pegasus Asia is queuing up to be the second SPAC listing, to raise S\$150m (S\$170m if over-allotment). Each unit, at S\$5, comprises 1 share and 0.5 warrants. It has also undertaken to deposit 100% of proceeds into the escrow account, and the sponsor subscribes to some warrants to pay the IPO proceeds.

The rising interest rate does not bode well for growth stocks. However, Chinese tech stocks rebounded this week, we believe, due to the establishment of 4 ETFs that track the MSCI China A50 Index. The total fund size is RMB7.4bn, and gives access to retail investors to participate. More ETFs are expected to be

launched, which will revive interests in the Chinese tech stocks that have been bashed by regulatory clampdowns in the last one year. We see investments flow into HK/China from US and other developed markets in 2022.

Analysts' Notes

Company News

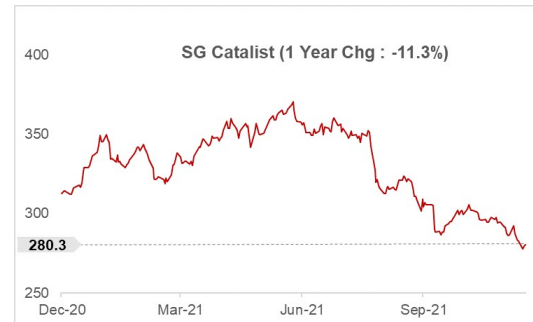
International Cement (BBG: ICG) halted production for a week at its cement plant in Almaty, Kazakhstan as the unrest in Kazakhstan hit its capital city. The 87.5%-owned plant, with 1.2m ton capacity, accounts for 30% of ICG's total cement production capacity and 30.4% (\$25.8m) of 1H21 revenue. The production halt would impact FY22E earnings, if prolonged. In Aug 21, ICG acquired a 60%-owned plant with 1m ton annual capacity, and is engaged in an 87.5%-JV to construct a 1.5m ton plant for US\$150m, to bring total cement capacity to 5.5m ton.

Econ Healthcare (BBG: ECON) incurred a loss of S\$3.4m from a S\$4m investment in HK-listed Crosstec (3893HK). The loss is equivalent to 13.8% of Econ's NTA as at Mar 21, and 9.1% as at Sep 21, and 4.7% of market cap. The shares were acquired on 30 Dec 21 and 6 Jan 22, and sold on 12 Jan 22. The price of Crosstec plunged 89% to close at HK\$0.27 on 12 Jan, from the peak of HK\$2.38 on 6 Jan. Econ's core business of running nursing homes earned net profit of S\$1.6m in 1H22 (Sep), which included S\$0.5m income from grants and rent concessions.

Fortress Minerals Limited (BBG: FMIL) recorded a 26% yoy increase in its 9M revenue to US\$38.1m. 3Q revenue was supported by higher iron ore sales volume (+35% yoy) despite a 21% decline in ASP to US\$87.44/dry mT. 9M PATMI was up by 9.5% yoy at US\$13.3m. The group has a net gearing ratio of 0.2x and trades at price-book value of 2.7x.

MM2 Asia (BBG: MM2) is launching a NFT

marketplace, Metaviva, for content producers to offer fans entertainment and media related digital tokens. RHTLaw Asia LLP will be providing legal services in setting up the Metaviva. The Group has also signed a non-binding agreement with RHT Aldigi Financial Holdings to invest in the marketplace.



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