This is SAC weekly newsletter for 16 Feb 2022. Thank you for reading.

Market Moves

Singapore's GDP grew 7.6% in 2021, ahead of advanced estimate of 7.2%. MTI maintained 2022 growth forecast at 3 – 5%, against a backdrop of still strong growth in export-related sectors. Though we could see recovery in aviation and tourism, retail and F&B, construction, and marine & offshore, these sectors are not likely to return to pre-pandemic levels. Geopolitical tensions, higher energy prices and inflation are headwinds that cast a pall over equity and bond markets.

Bank stocks continue to outperform, as rising interest rates remain at the top of investors' minds. The high CASA ratios (DBS: a record 76%; UOB: 56%) put them in good stead to enjoy margin expansion as these deposits are slower to be repriced compared with loans and fixed deposits. A 25bp rise in rates will raise NIM by 7-8% pt (previously 5-6% pt) for DBS, and 4-5% pt (previously 3-4% pt) for UOB. DBS' gain is higher, thanks to its bigger HK loan book that has a direct correlation with the HK$/US$ peg. DBS guided credit cost at 2bp for 2022, vs 20-25bp for UOB, which are spectacular when compared with 10% loans growth for both banks. A possible headwind for DBS is the slow-down in China's economic growth. The extension of loan moratorium expiry in Malaysia and Thailand raised uncertainty in terms of asset quality. This has a bigger impact on UOB and OCBC. OCBC is due to report earnings on 23 Feb.

Despite still high virus cases, Singapore relaxed COVID rules that lower costs for businesses and tourists and enable events and tourisms to normalize. The construction companies, event organizers, cinema operators, and transport and tourism sectors would benefit. This would also give a fillip to retail REITs. F&B operators, however, still face the constraint of seating capacity. PCR tests is expected to fall as these are replaced by ART tests. Occupancy rates at local hotels could fall as the recovery in tourism is not sufficient to offset the loss of quarantined and staycation guests. Healthcare players that pivoted to conduct PCR tests could see demand fall off.

Strong liquidity has driven up property sales and eased cash flow pressure for developers. About 96% of Oxley's total residential GDV have been sold. The cash inflow in 2022 and 2023 from progressive completion will pare down debt. HDB is also accelerating its building programme to launch about 23,000 units in 2022, from an average of 16,000 to 17,000. It is also said to step up its home improvement programme this year. Together with lower COVID costs and restrictions, and increase in manpower supply, construction growth is likely to surpass the 20.1% achieved in 2021.

Analysts' Notes

Koda Ltd | Koda's 1H22 results were in line with our forecast. Revenue of US$33.8m and net profit of US$3.0m was 47%/58% of our FY22E estimates (Rev: US$72m, Net profit: US$5.1m). Revenue (-14.4% yoy) and net profit (-37.2% yoy) were impacted by COVID-related factory closure in both Malaysia and Vietnam and higher raw material costs. Koda has since resumed production with its factories running at full capacity. Margin is expected to improve on higher utilisation rate. Commune is raising prices to cope with rising raw materials and freight costs. While its retail sales grew 14% yoy (9% hoh), China's zero COVID policy poses an ongoing concern as it restricts retail footfall. Local furniture retail sales and volume were down 7.9%/8.2% mom in Dec 21. There could be waning demand from wfh arrangements as more employees return to office. Previous TP: S$1.00. New TP under review. *(Lim Shu Rong)*

Lendlease Global Commercial REIT | Lendlease Global, which currently holds a 38.1% effective interest in Jem mall, is acquiring the remaining interest of the property at an agreed property value of S$2,079m. The purchase consideration is at ~0.3% discount to the appraised value as at 31 Dec 21. The acquisition is expected to be 10.5% DPU accretive on adjusted 1HFY22 basis. Concurrently, Lendlease Global is also acquiring 13.05% interest in ARIF3, which holds a 75.0% indirect interest in Jem Mall, for S$116m. the total acquisition cost is estimated to be ~S$2,015m, of which up to S$1,015m will be funded through equity fund raising exercise. The suburban retail sector has performed relatively well during the COVID pandemic. We expect Lendlease Global to benefit from the acquisition as the retail sector picks up when restrictions ease. *(Lam Wang Kwan)*

Grand Venture Technology | FY21 results were ahead of our revenue (+17%) and net profit (21%) estimates. Revenue rose 89% yoy and net profit jumped 237% led by robust demand across all 3 segments. Gross margin climbed higher to 32.4% as semiconductor enjoys greater economies of scale and efficiency from digitalised production, offsetting the decline in Life sciences and Electronics caused by higher qualification costs. Extra capacity from newly-acquired subsidiary (Formach Asia) will help GVT to streamline some production process, further improving its gross margin. The Group is currently running at full capacity and has orderbook value higher than FY21. GVT is in a net cash position of S$0.54m following 2 share placement exercises which raised S$51m. Previous TP: S$1.30. New TP under review. *(Lim Shu Rong)*

ISOTeam | Reported continued recovery in 1H22 (year-end Jun) results. Revenue rose 22.7% to S$45m, while gross profit edged higher to S$3.2m. The worse is probably behind. Workers are returning and there are less players in the market. Its biggest competitor exited the industry last year. Cost of labour and materials have risen by 20-25%, but margins for new projects are also returning to the 15-25% level. About 20% of its orderbook (or S$30m) were secured pre-COVID at possibly -2 to -3% margin, a short-term drag on earnings. HDB is playing catch-up to clear backlog of newbuild construction and repairs. We believe ISOTeam could turn around in FY22. The share trades at 1.2x P/B. About S$12m will be received from the sale of Sunseap, which could halve net gearing to 0.5x. *(Peggy Mak)*

UG Healthcare | 1H22 (year-end Jun) revenue fell 26.4% and net profit fell 61.3% yoy when compared with peak glove demand and ASP in FY21. But 2Q22 revenue fell a smaller 4.9% qoq to S$57.2m and net profit was flat at S$10.6m, leading us to believe that the quarterly run rate has stabilized. Though we see a moderate decline in ASP going forward, prices of raw materials are also coming off. UG has managed to secure 1 to 2 new significant customers. As a manufacturer and distributor, it enjoys distribution margin by sourcing from lower-cost manufacturers. The usage of gloves has widened to new sectors such as F&B and security during the pandemic. Even with higher vaccination rates and re-opening, demand is not likely to fall back to pre-pandemic level. UG trades at 0.8x P/B, 3.9x annualized FY22E PE and 1.6x annualized FY22E EV/EBITDA. *(Peggy Mak)*

Company News

DISA Limited | 1H22 revenue has improved 113% yoy to S$13.0m on higher sales of security solutions. Hong Kong market contributes 96% of the Group's total revenue. Net losses narrowed 46% yoy to S$1.0m. In 2H22, the Group is trialling its ART system that uses its proprietary DiSa Serialization technology to tag each ART kit to individual users. Successful proof of concept would allow for commercialisation of the ART system.

Global Dragon | Global Dragon's 1H22 revenue jumped 11.6x to S$59m from same period last year following recognition of sales for 3 of its property development projects (Projects Infini At East Coast, Project Flower Road and Project Lorong Mydin). All units at Project Lorong Mydin are fully sold. Its 2 other completed projects, Project Tan Sim Boh Road and Project Flower Road are expected to receive TOP in 2H22. The Group has 4 projects that are under construction in the pipeline. The Group recorded S$5.0m in net profit as compared to S$0.953m loss in 1H21.