This is SAC weekly newsletter for 23 Feb 2022. Thank you for reading.

Market Moves

Markets across Asia plunged as Russian President Putin ordered attacks on Ukraine. Crude price pushes higher to US$100/bbl with the heightened risk of a supply disruption. Russia might face sanctions that affect its oil and gas revenue. Russia is the world's second largest producer of natural gas and third largest for crude oil. Europe is its key customer. With 32% of gas, 34% of crude oil and 53% of hard coal imported from Russia, output from Germany's key industries of chemicals, automotive, mechanical engineering and electrical are under threat.

Companies with direct exposure in Russia are Food Empire and Don Agro. A potentially weaker rouble, consumer sentiment in the country and export sanctions could weigh on earnings. Higher risk premium would be priced into value of European assets, thus impacting the value of REITS with European assets. The aviation sector could face higher jet fuel cost, insurance premium and cut back on routes and travel demand. Disruption in supply of chemicals from Europe would hurt downstream industries such as pharmaceuticals, healthcare, semiconductor, electronics, cleaning and agriculture. Supplies from Asia would not be enough to fill the slack.

SIA reported a surprise turnaround in 3Q22 net profit to S$85m (3Q21: loss S$142m), helped by S$56m gain on fuel hedge. Passenger yield for full-service flights in 3Q was weaker at 12.9 cents/pkm and unit costs higher at 8.0 cents/ask. The achieved load factor of 36.4% was still below breakeven level of 62%. Low-cost carrier, at 14.4% load factor, was also below breakeven's 30.3%. Cargo continued to do the heavy-lifting. Cargo breakeven load factor, at 33.6% is well below achieved 83.1%, and has improved due to the addition of lower-cost belly capacity on the passenger planes. The 4Q outlook is hazy given the Russia/Ukraine conflict.

If the conflict is taken out of the picture, the global supply chain bottleneck is looking to ease. Manufacturing PMI in the ASEAN countries are back to expansionary as COVID controls ease and international travel returns. SIA's cargo load factor has also fallen from high 80% to 76% in Jan 2022.

Analysts' Notes

Megachem Limited | Megachem achieved record revenue of S$138.9m (+32.0% y-o-y) and NPAT of S$8.0m (+52.0% y-o-y) for FY21. This came ahead of our revenue and NPAT targets at +4.4% and

+23.1% respectively. The strong growth was driven by both higher volume and prices as demand for chemicals increased following resumption of business activities. The supply-demand imbalance driven by backlog and economic recovery is likely to sustain the demand for speciality chemicals for FY22. In tandem with the higher sales, Megachem increased their trade borrowings and short-term bank loans to finance the higher working capital requirements, pushing gearing up from 37% to 51%. We are reviewing our TP (S$0.550) and Buy call. *(Lam Wang Kwan)*

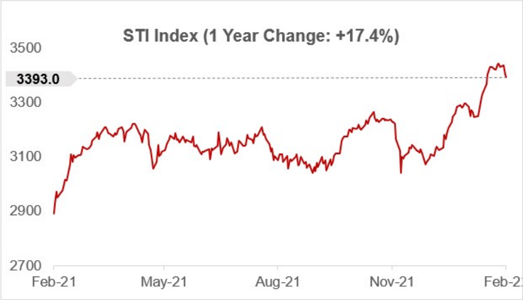
Pan United | FY21 revenue and gross profit were largely in line, but net profits (S$18.7m) exceed our estimates (S$16.7m) by 12%, due to higher share of profits from associates (S$5.3) and other income (S$5.7m). Raw materials costs remain elevated at the moment. Coal used for cement production was up 176% yoy. Catch up in lagged construction projects for the next two years will fuel the demand for RMC and keep costs high. Cost increases are usually passed on to the customers. BCA projects an 11-23% increase in progress billings for 2022 which translates to revenue booked in contractors' book for the year. Fico PanUnited, a subsidiary of the Group, has also commissioned the supply of RMC to Novaland Group for Aqua City project. This will contribute to the Group's topline as well. The Group has pared down its debt to S$46.6m and turned to a net cash position of S$17.5m. PanU currently trades at 13.1x PE. *(Lim Shu Rong)*

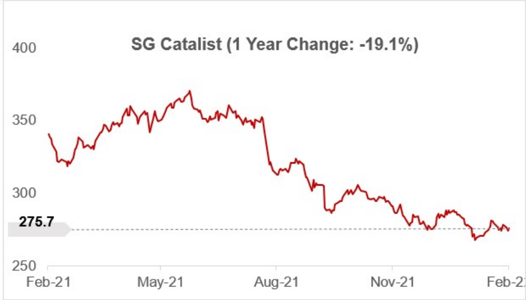
Hyphens Pharma | Hyphens announced FY21 revenue of S$125.9m (+4.1% y-o-y) and net profit of S$6.8m (+11.1% y-o-y), largely in line with our estimates. Hyphens saw growth in all three segments: specialty brand principals (+5.9%), proprietary brands (+5.3%) and medical hypersmart (+0.7%). We expect the acquisition of distributor Novem in Nov 21 and launch of e-pharmacy WellAway in Jan 22 to contribute positively in FY22. We are reviewing our TP (S$0.40) and Buy call. *(Lam Wang Kwan)*

OTS | Performance was dragged down by weak consumer sentiment in Malaysia and a stronger S$ vs Ringgit. It also faced price dumping by foreign brands in the Singapore market. 1H22 (year-end Jun) revenue and net profit were 37% and 24% of our estimates. We are lowering our earnings estimates and target price. Political uncertainty and weak spending power in Malaysia are expected to persist at least till the General Election to be held before July 2023. *(Peggy Mak)*

Company News

Kim Heng | FY21 revenue improved 68% yoy ($63.2m) as charter income (+172%) climbed in a supportive oil price environment. Although net loss widened 12% yoy to S$5.9m, EBITDA jumped 7.7x yoy to S$5.4m. There's more headroom for charter income to grow. Geopolitical tension continues to support higher oil prices which translates to higher day rates for vessel charter. Margin is expected to expand further following higher utilisation of its fleet. The Group has a net gearing ratio of 70%. Although the Group is in a net current liability position of S$8.5m, its operating activities are generating cash. Kim Heng is trading at an EV/EBITDA of 17.4x.


STI Index (1 Year Change: +17.4%)
3500
3393.0
3300
3100
2900
2700
Feb-21
May-21
Aug-21
Nov-21
Feb-2


SG Catalist (1 Year Change: -19.1%)
400
350
300
275.7
250
Feb-21
May-21
Aug-21
Nov-21
Feb-2