This is SAC weekly newsletter for 9 Feb 2022. Thank you for reading.

Market Moves

Singapore's Dec 21 retail sales index (+6.7% yoy, +8.6% excluding motor vehicles) nearly matched Dec 18 / Jan 19's level, highlighting very strong consumption spending in spite of low tourist numbers. The buying spree was recorded at department stores (+13% yoy), personal grooming (+17%), apparel and footwear (+16.8%) and watches and jewellery (+27.4%). Also reflecting the optimism, Japan Food has opened 3 new restaurants in Singapore and launched a new brand in Shanghai. RE&S added 8 new QSR outlets and revamped the NEX outlets into a food street, in spite of ongoing dine-in restrictions.

Also fueling the inflationary pressure is crude price, which hovers just below US$90/bbl. This has revived interests in energy projects. CSE secured S$131.2m (+33.4% yoy) in new orders in 4Q21. Albeit still below 4Q19's S$230.1m, new orders have risen steadily from the low of S$91m in 3Q20. If crude price sustains for the next 6-12 months, oil majors could be incentivized to increase capex, which flows through to local O&M players through higher orders, charter rates and equipment utilization. Unfortunately, the recovery is too late for Ezion, which is under liquidation.

The US House passed a bill to boost semiconductor manufacturing in the US. The bill includes US$52bn in grants and subsidies to help the sector and US$45bn to strengthen the supply chains for high tech products. The European Commission will also ease funding rules for innovative semiconductor plants to boost its chip industry and cut its dependence on US and Asian supply. The European Chips Act will enable EURO15bn in additional investments by 2030, to double its global market share to 20%. The higher capex spend will drive demand for equipment and parts and supports order growth for companies such as Grand Venture and UMS.

On the other hand, the US Commerce Department added 33 Chinese entities to the 'unverified list', which requires US exporters to go through more procedures before shipping goods to the entities. The entities included listed companies, universities, aerospace and electronics suppliers. Wuxi Biologics' share price plummeted 29%, after its Wuxi and Shanghai units were added to the list. The US/China tension continues to put Chinese manufacturers at risk. Corporates we spoke to have mostly established alternative manufacturing sites for US orders.

At its FY21 results briefing, HPHT cautioned that throughput at its China ports might fall yoy with lower shipments to US and EU. This seems to suggest that the spike in re-opening demand is waning in the developed countries. Or the purchases could have diverted to other countries such as Indonesia, Malaysia and Vietnam as they gradually open up.

Analysts' Notes

Micro-Mechanics Holdings Ltd | Micro-mechanics held a briefing for its 1H22 results. Management attributes parts shortage, manpower issues and supply chain disruption for operating losses incurred from its US operations. Its suppliers now take 9 months for the delivery of equipment which originally would have taken 3 months. The Group is also investing in automating its processes. The Group has a planned CAPEX of $6m in FY22 with S$1.4m spent in first half. *(Lim Shu Rong)*

BRC Asia | BRC updated on 1Q22 (ended Dec) performance, which is in line. Net profit of S$13.3m was 23% of our FY22E (Sep) estimates of S$57m. Revenue (+67.5% yoy, +6.5% qoq) and net profit (+38.8% yoy, -24.6% qoq) were led by construction pickup and higher steel prices. Gross margin, at 6% (-5% pt yoy and -1.4% pt qoq), was lower as this took into account provisions for higher cost of purchases. Net gearing improved to 0.49x (FY21: 1.17x) with S$45m placement proceeds and run-down in inventory and stronger cash collections. Order backlog grows to S$1.3bn (Dec 21: S$1.2bn). According to BCA, FY22 industry contract awards are expected to come in at SS$27-32bn (FY21: S$29.9bn, FY20: 21bn). If we include S$8bn estimated capex for the 2 IRs, this might top FY19's S$33.5bn. Contract awards will translate into progress billings in 12-24 months. We are reviewing our TP (S$1.64) and HOLD call. *(Peggy Mak)*

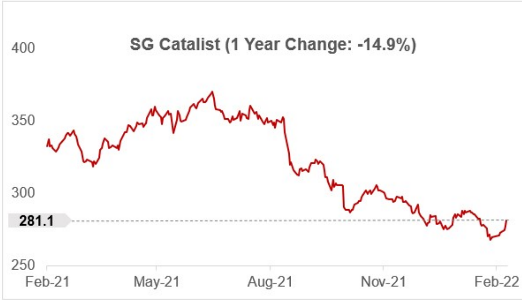
Company News

Lifebrandz Ltd | Lifebrandz is investing up to S$0.7m in its wholly owned subsidiary, LB Lab via equity investment and convertible loan. LB Lab has proposed to acquire 70% stake in The Green Bar and as consideration, vendors are allotted and will hold 25% of its LB Lab's enlarged share capital. Details are in the midst of finalising.

CSE Global Ltd | CSE Global secured S$131m of new orders in 4Q21, supported by increase in orders across all industry sectors (Energy +36%, Infrastructure +27% and Mining & Minerals +35%). Total order book stands at S$229m ending FY21.

Azeus Systems Holdings | Azeus Systems renewed 2 agreements with the Hong Kong government for the supply of IT services. The contracts will last for 4 years starting in Feb 22.

RE&S | 1H22 (Y/E Jun) revenue grew 7.2% to S$68.6m, driven by 42.8% increase in QSR segment. Net profit halved to S$3.4m due to lower government grants and higher expenses to build manpower and capacity. ROIC at 8% with net cash of 3.8 cents/sh. Stock trades at EV/EBITDA of 2.1x. It declared div of 0.85ct.



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