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SAC CAPITAL

This is SAC weekly newsletter for 2 Mar 2022. Thank you for reading.

Market Moves

Fed Chair Powell's remark that a March rate-hike is likely a smaller 25bp than the much-anticipated 50bp lifted optimism in the markets that have been over-shadowed by the Russia/Ukraine conflict. Sanctions imposed on Russian banks and businesses disrupted supplies of hard and soft commodities, leading to spike in prices of crude oil, CPO, aluminium and other precious metals. The index provider, Russell and MSCI are also pulling Russian equities from their indices.

The CPO producers had a bumper year in 2021, propelled by higher CPO prices, offset to a small extent by export limits in Indonesia. CPO prices are expected to stay high, backed by higher crude oil price and the cut-off of sunflower seed oil export from Ukraine. We prefer the upstream producers such as Bumitama Agri. Lower hog prices have discouraged farmers to buy higher-cost feeds, negatively impacted Japfa's earnings and Wilmar's soybean crushing margin. The Chinese government has been building national stockpile of pork to stabilise hog prices.

Besides banks and CPO producers, the property agencies also had a spectacular 2021. The year saw record number of homes (+43% to ~66,700) sold and price increases, led by more household formations, higher disposable income, and savings from cut back on overseas travel. With dwindling supply (unsold new units at all-time low of 14,154), and 16 Dec cooling measures that cut TDSR from 60% to 55% and raised ABSD, transaction volume might fall by about 20% in FY22. However, demand remain intact, as a record number (~35,000) of HDB flats will reach minimum occupation period in 2022. We also expect substantial government land release in 2H2022 that will add sales transactions in 2H2023.

Analysts' Notes

Cosco Shipping International | Revenue grew 7% yoy to S$198.5m while net profit jumped 2.6x to S$30.1m of which S$16.4m came from gain on disposal of 60% stake in its shipping business. Results from its shipping business will be included in share of associates' profits from FY2022 onwards. Revenue from logistics business improved 13% yoy and contributes 74% of FY21 revenue. (FY20: 69%) Occupancy rate at Cogent 1.Logistics Hub and Jurong Island Chemical Logistics Facility is at ~95%. Total cargo throughput is still down from pre-pandemic level by 4%. Returning of trade flow would see more value-added services being contracted on top of warehousing services. *(Lim Shu Rong)*

UMS | FY21 revenue of S$271.2m (+65% yoy) exceeded our estimate by 10% while net profit of S$53.1m (+46% yoy) came in lower by 21%, due to the surprise tax charge. Its pioneer tax status was revoked when it failed to meet the minimum 80% local labour requirement in Malaysia. UMS is appealing. JEP was consolidated from 2Q, and provided the much-needed capacity for component manufacturing. UMS is adding a plant in Penang to come on stream in 2022 to cater to new customers *(Lim Shu Rong)*

International Cement Group | ICG reported FY21 revenue of S$181.4m (+28.1% y-o-y) and a 200% increase in net profit to S$26.4m. This came ahead of our revenue and net profit forecasts at +15.7% and +15.8% respectively. The growth is attributed to the full year contribution from its Alacem cement plant in Kazahkstan, which generated S$67.2m in sales. ICG is continuing to expand its footprint in Kazahkstan through the acquisition of an existing cement plant in East Kazahkstan and the construction of new cement plants in in the Jambyl region. The two plants are expected to increase annual cement production capacity by 2.5mt. We are reviewing our TP (S$0.0089) and Buy call. *(Lam Wang Kwan)*

Elite Commercial REIT | Elite announced that it has successfully removed the lease break options for 100 out of the 117 DWP-occupied properties. The lease will therefore run straight till March 2028. This will provide clearer income visibility over the next 6 years. Elite will also be able to enjoy rental uplift starting from 1 April 2023. It is estimated that the CPI-linked rental escalation will provide ~11% of positive rental rent reversion. We also expect that an upward revision on the valuation of the portfolio. Of the 17 remaining properties, Elite is still in negotiation with the relevant authority.

At the same time, Elite will also commit £12.5m over 3 years for sustainability-linked AEI works for DWP-occupied properties. The REIT intends to undertake various initiatives that will improve the properties' energy efficiency and result in the upgrade of the properties' Energy Performance Certificate ratings. Elite is currently trading at a dividend yield of 8.5% and a P/NAV of 1.1x. *(Lam Wang Kwan)*

HRNetGroup | Booked record FY21 revenue. Revenue from professional recruitment recovered to 2019's level. Demand for flexible staffing remained unabated, anchored by healthcare (26% of revenue) and government (16%) sectors. Number of job placements rose 11% to 7,794, still lower than 2019's 8,530, but points to higher value per placements, buoyed by the Great Resignation wave and active hiring in the tech sector. We think the number of job placements can sustain at about 7,800 as economic re-opening will call for more manpower in F&B, hospitality and transportation. EDB Singapore (70% of revenue) secured fixed asset investment commitment of S$11.8bn in 2021, which will create 17,376 new jobs (FY20: 19,352). Minimum wages for foreign pass holders and essential services were raised in the recent budget, thus encouraging local hiring and lifting local wages. This works in favour of HRNet, whose strength lies in placement of local residents. HRNet generates strong ROE of 19% and ROIC of 79%, and has net cash of S$0.326/sh (42% of mkt cap). *(Peggy Mak)*

Asian Pay Television Trust | The investment into capex is beginning to bear fruit. Broadband user count and ARPU rose steadily by 2.9% and 1.4% qoq in 4Q21, as mobile telco operators drive 5G traffic on its network. APTT offers a lower-cost and reliable alternative for mobile operators to meet growing 5G adoption. Capex needs have reduced to S$29m (FY20: S$51m), and likely to be smaller with the network capacity fully installed. Free cash flow per share was 6.8 ct/sh, well ahead of committed distribution of 1 ct/sh for FY22. Distribution can possibly rise from FY23. It is trading at yield of 7.3%. *(Peggy Mak)*

Company News

KTMG | Malaysia-based integrated textile and apparel manufacturer KTMG's net profit of S$2.1m fell 31.8% yoy despite higher revenue at S$97.8m (+37.8% yoy). Gross margin fell 4.6% pt to 13.9% due to COVID-led costs and supply chain disruption. This mirrors the profit warning issued by Shenzhou Intl (2313 HK). Shenzhou suggested that 2021 net profit would fall 31-39% yoy to RMB3.1-3.5bn mainly due to lower utilisation at its Vietnam plant.

Nippecraft | Higher sales (+8.6%) and lower cost (-2.4%) helped staged a turnaround in the stationery business. Overall net profit improved to US$0.3m, though revenue was -2% at US$140m with lower income from pulp and paper trading. The Group's net cash of US$23m well exceeds current market cap of S$13m.