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This is SAC weekly newsletter for 13 Apr 2022. Thank you for reading.

Market Moves

Singapore's advanced estimate of 1Q22 GDP came in at +3.4% yoy (4Q21: +6.1%) and +0.4% qoq (4Q22: +2.3%), based on data for Jan & Feb. The war in Ukraine erupted at end Feb, hence Mar's data are unlikely to provide a fillip. 1Q22 growth continued to be led by manufacturing (+6.0% yoy). Construction grew 1.8% yoy, after a slump of 22.2% yoy in 1Q21. Outlook for the rest of the year is clouded by high commodity prices and supply chain disruption. We are keeping our full year GDP estimate at +3.5%, mainly on the back of construction recovery with ramp-up in public housing and infrastructure projects. MTI maintains its estimate of +3 to +5%.

MAS further tightened monetary policy that strengthened the S$, to cope with an elevated core inflation of 2.5%-3.5% (from 2%-3%) and headline inflation of 4.5%-5.5% (from 2.5%-3.5%). A stronger S$ mitigates the rise in imported input costs, is positive for corporates with foreign debts, but negative for income earned in foreign currencies. Banks' high CASA ratios suggest still high liquidity and savings rate. Coupled with pent-up demand, corporates are likely to be able pass through the material-cost inflation, at least in the initial phase. However, this might not help margins as more companies are building inventories and setting up more plants in different locations to insure against supply shortages and production disruptions.

China's Mar exports grew +14.7% yoy (+16.3% in Jan-Feb), with slower shipment growth to Europe (+21.4%) but higher output to US and Japan. Imports, however, slumped to -0.1% yoy (+15% in Jan-Feb). Given higher commodity prices, this suggested a steep decline in import volume. COVID lockdown, Russia/Ukraine conflict and logistics disruption at Shenzhen could have played a part, but lower imports suggest weaker domestic demand and exports going forward. Asian producers could face disruptions in input supply from China. The slower domestic demand would also affect demand of goods from Asia. China/HK, Singapore's biggest export market, takes up ~25% of exports.

Shanghai has been slowly lifting the COVID curbs in some regions, and HK is also looking to ease some border restrictions by end April. The Chinese economy, which is looking very weak, could recover from 3Q, especially if the expected RRR cuts take effect.

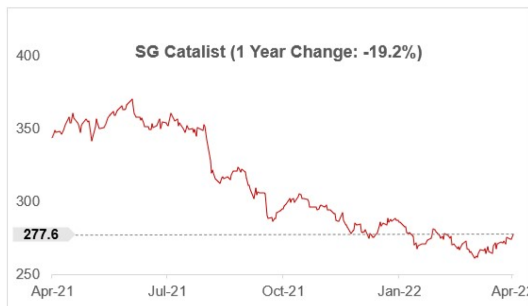
Analysts' Notes

RIsing energy costs | Higher energy costs may hamper the speed of recovery for retailers and F&B players just as the sector is set to rebound from easing travel and covid restrictions. Asia LNG spot prices have risen 44% ytd to US$33.5/MMB as European countries seek supplies outside of Russia, intensifying competition for gas imports. Natural gas imports make up 95% of Singapore electricity needs. Electricity tariff has increased ~10-13% qoq for non-household users. Commercial and industrial users purchase electricity either under fixed rate contracts from electricity retailers or from the wholesale market where prices fluctuate every half an hour. The former is preferred given the reduced exposure to current heightened market volatility. However, electricity retailers may not have the capacity to renew/provide more fixed rate plan given the current volatile market as well. Demand currently outstripped supply as 1-month contracts under Temporary Electricity Contracting Support Scheme which capped electricity rate were oversubscribed for Jan and Feb. The scheme has been extended to May. If the gas prices continue to trend higher, operating margin for F&B and retail businesses will be subjected to more pressure unless the costs are pass on to consumers which could otherwise dampen local consumption. *(Lim Shu Rong)*

Commercial properties | Under URA's Long-Term Plan Review, Singapore is exploring the roll out of more short-term leases for commercial sites, which will allow Singapore to refresh its land uses more regularly and provide more flexibility. Currently, commercial sites generally have a 99-year tenure. Rents at these commercial sites with shorter-term lease are expected to be lower due largely to lower upfront land cost and likely to see less development costs being committed by developers due to the shorter duration to recoup their infrastructure outlay. We expect most of these short-term lease commercial sites to be rolled out outside the CBD area as Singapore aims to shift commercial activities away from the central area. Between 2007 to 2011, URA has sold 7 experimental transitional office sites with 15-year leases located along Scotts Road, Tampines, Mountbatten Road, Anthony Road and Mohamed Sultan Road. As such, we do not see grade A office rent coming under significant pressure as CBD area continues to offer high quality assets and convenience of access. These shorter-term commercial sites are likely to fall into the same category as the Cat 2 offices. On average, the rent of Cat 2 offices is 40% less than Cat 1 offices rent. *(Lam Wang Kwan)*

Company News

Excelpoint Technology Ltd | entered into an acquisition agreement with WT Microelectronics for the latter to acquire 100% stake in Excelpoint at S$1.93/share. The cash consideration represents 1.6x of Excelpoint's net book value as at 31 Dec 21. Founder and major shareholder, Mr Albert Phuay, and his wife, with an aggregate interest of 41.98%, have given their irrevocable vote in favour of the acquisition. Following approval from the remaining shareholders and authorities, Excelpoint will be delisted. Mr Albert Phuay will hold a 20% stake in the acquirer and retains the CEO position.



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