This is SAC's weekly newsletter for 29 June 2022. Thank you for reading.

Analysts' Notes

OKP Holdings <Management meeting> | OKP is a civil engineering specialist engaged in the construction of viaducts, roads and underground work, with an orderbook of S$329.2m as at end 2021. Construction activities are picking up and the government is dishing out infrastructure contracts held back during COVID. BCA expects ~S$8.0b – S$9.7b civil engineering contracts to be awarded in 2022. Construction demand is projected to average S$25b-S$32b per year over 2023-2026.

On the cost front, manpower cost remain a concern. Border re-opened has caused foreign workers to leave for home, and also bring in new workers, causing some downtime as the new workers undergo training. The absence of JSS (FY21: S$0.6m) adds to margin pressure. Except for rebars and ready-mixed concrete, which can be passed through to customers via fluctuation clause governed by BCA, OKP also faces risk of rising costs for other building materials. *(Lim Shu Rong)*

APAC Realty <Management meeting> | 1Q22 revenue and net profit rose 22% and 20%, respectively, driven by the sales transactions closed in 2H2021 that were completed in this quarter. Transaction volume eased post the Dec 16, 2021 cooling measures, but picked up moderately in 2Q22, leading us to expect a yoy decline in 1H22 and hoh decline in 2H22's financial performance. Government land sales in 2H22 will translate into earnings only a year down the road. Still, dwindling supply is holding up property price, though a muted increase. Demand for luxury segment remains strong, and this is not deterred by rising mortgage rates. Construction delays will support rental demand. The authority recently closed a loophole that now require trusts to also pay ABSD, which could have an impact on some local buyers.

With Morgan Stanley Private Equity as a new shareholder (64.8%), overseas expansion into Vietnam and Indonesia is likely to be a key focus. These nascent markets are un-regulated and fragmented, and developers are accustomed to direct sales, hence spells immense opportunities for APAC Realty. *(Christopher Ong)*

Jumbo Group <Management Meeting> | Jumbo's Singapore restaurants are enjoying brisk business since the lifting of dine-in group size limit and economy re-opened from end April 2022. The footfall for its flagship outlet at East Coast is back to pre-COVID level and Singapore outlets could take revenue back to above S$100m for FY22 (Sep). Revenue in FY19 was S$154m. Singapore's April retail sales for restaurant spending was +17.2% yoy and +9.4% mom. Jumbo raised menu prices during CNY. Another round of price increase might be in the pipeline to cover higher input costs and maintain gross margin at above 60%. It faces higher food and manpower costs, but less upside risk on rental. Landlords are also more receptive to peg rental to GTO.

China, on the other hand, is hit by the lockdowns in Shanghai and Beijing. The gradual lifting of the restrictions in Jun will alleviate some pressure. China accounts for 34% of sales in 1H22 (Mar). It has greater success in Vietnam, where they are top in restaurant sales in HCMC. Going forward, it will look to focus on developing product mix and markets for retail packs; 3) expand overseas through a franchise model. *(Yeo Peng Joon)*