SAC CAPITAL

This is SAC's weekly newsletter for 20 July 2022. Thank you for reading.

Analysts' Notes

Sabana Industrial REIT <Analyst briefing> | 1H22 revenue and NPI rose 14.7% and 5.2% yoy, mainly due to higher portfolio occupancy of 88.2% (83.4% in 1H21), and positive 17.4% rental reversion in 2Q22, derived mainly from added retail space at New Tech Park. DPU rose 7.4% yoy to 1.59 cents, translating into annualised DPU yield of 7.1%. NPI margin fell from 65.7% in 1H21 to 60.3%, which we think may be due to higher utility costs. Management plans to conduct energy audits and implement saving strategies, with tangible results expected in 2H23. Going forward, we expect margins to decline in 2H22, but show an uptick in FY23 as energy saving initiatives are implemented.
Improved occupancy was attributed to a new 10-year triple-net master lease at 30 & 32 Tuas Avenue 8. Occupancy will rise when it secures tenants (or preferably a master tenant) for 1 Tuas Avenue 4 which is undergoing AEI to turn into a logistic hub, due to complete in 2H2023. *(Christopher Ong)*

Silverlake Axis <Management Meeting> | We believe SLA will ride on UOB's acquisition announced in Jan 2022. UOB acquired Citigroup's retail assets in Malaysia, Indonesia, Thailand and Vietnam, and the integration of the systems is likely to add to SLA's revenue from providing maintenance and enhancement services. This segment traditionally accounts for 60-75% of SLA's revenue.
SLA's cloud-based platform Mobius now accounts for 13% of 9M22 revenue (from 5% in FY21), and the SaaS model for insurance processing (under Fermion) and retail account for 5% of total revenue. Banks remain its key customer base.
After the recent partial GO of 424.2m shares at S$0.33 each, we estimate SLA has net cash and investments totaling about RM225m (S$71m), or S$0.03 per share. The stock trades at 22x FY21 (June) PE and 1.4x P/B after accounting for the partial GO. *(Yeo Peng Joon)*

Japan Food <1Q23 (Jun) Earnings Report> | Revenue surged by 91.8% yoy while the bottom line turned around from a loss of S$1.2m in 1Q22 to net profit of S$1.4m, backed by 1) positive response from halal restaurant segment; 2) easing of dine-in restrictions from end Apr; 3) addition of 3 outlets to 59, and 4) higher ASP that added 0.8ppt to gross margin to 84.8%. Associates posted a S$84K loss due to China's zero-Covid restrictions, which have relaxed somewhat.
We expect the positive earnings momentum to sustain into 2Q, fuelled by higher local and tourist spendings. However, the rise in manpower and input costs will exert margin pressure. JFoods' JV with Thai Minor Group is also expected to open the first Thai concept restaurant in Tokyo in Aug. The group has net cash of S$25.3m (S$0.145/sh), and trades at 2.2x P/B. *(Yeo Peng Joon)*

Atlantic Navigation Holdings <Management Meeting> | Atlantic Navigation is an offshore vessel operator located in UAE, operating a fleet size of 17 vessels of an average age of 7 years. The Group also provides ship repair, fabrication and other marine services at its repair yard at Hamriyah Free Zone. Its customers are primarily from the Middle East, making up 86% of total FY21 revenue. Their customer base includes NOCs and EPC contractors such as Saipem and McDermott.

Offshore E&P activities have returned. 1Q22 chartering revenue grew 52% yoy to US$12.8m due to higher day rates and utilisation. Consequently, the Group recorded a higher gross margin of 29.4% vs 11.1% in FY21. Vessel utilisation rate further improves to 90% in 2Q. (1Q: 85%) Saudi Aramco plans to expand its offshore jackup rig fleet to 90 by 2024 with the target to achieve production capacity of 13m bpd by 2027. Currently, the NOC has deployed ~49 jackup rigs. These robust rig activities are expected to boost chartering demand and benefit the Group as the Middle East is their prime market.

1Q22 ship repair revenue rose 69.5% yoy to US$1.3m. High bunker prices have pushed vessel operators to send their vessels for repairs in the vicinity rather than to travel to Singapore or Indonesia yards. Waiting time for a yard slot is now 3-4 months. With the region bustling with more upstream activities, we expect yards in Middle East to be fully booked in the near term.

The Group turned around in 1Q22 with a net profit of US$1.9m and EBITDA of US$5.2m (61% of FY21 full-year EBITDA of US$8.5m). The stock is trading at an annualised 4.3x PE and 4.6x EV/EBITDA. Net gearing stands at 89%, and debts will fall with improved cash flow from higher order flows. *(Lim Shu Rong)*