This is SAC's weekly newsletter for 3 August 2022. Thank you for reading.

Analysts' Notes

Banks <1H22 Earnings Review> | All three local banks posted strong gains in net interest income on the back of higher interest rates, which tend to be front-loaded given that deposit rates are slower to be repriced. From here, the pace of gain in NIM is likely to be slower as rates rise, also due to lower flow-through of the Fed rate hike. OCBC and UOB's NIM have returned to pre-COVID level, while DBS is still below and could reach that at end 2022. All three banks have lowered or maintained loans growth guidance at mid- single-digit this year, and expect credit cost to normalize to 20-30%. The macroeconomic outlook, and its impact on asset quality, remains the biggest concern for the banks. We remain neutral on the sector. *(Peggy Mak)*

Sheng Siong <2Q22 Earnings Call> | 2Q revenue of S$319m (-7.4% yoy) reflects the normalization of economic activities, though this is still 34% higher than 2Q19. In spite of lower sales, gross margin continued to edge higher to 30.2% (+1.2% pt), due to better sales mix (more fresh food and house brand products) and higher operating leverage with 2 new stores in 2Q. 2Q net profit fell 4% yoy.
Sheng Siong is best known for low-priced food, grocery and household products, and is well-positioned to gain market share in current inflationary environment when consumers trade downwards. It added one store in August, and is bidding for 4. New stores give impetus to earnings as they extend Sheng Siong's reach to untapped residential areas. *(Peggy Mak)*

First REIT <1H22 Analyst Briefing> | NPI rose 40.2% yoy, with maiden contribution from 12 Japan nursing homes (S$4.4m) and higher gain from the Indonesian hospitals. The results would be better, if not for the weaker Yen (-13.4%) and IDR (-1.1%) against S$. Net return rose by a modest 2.6% due to a S$10m decline in value of investment properties. After accounting for new units issued for the purchase of the nursing homes (at S$0.305 each), 1H DPU was 1.5% higher at 1.32ct.
We believe IDR will be stable or strengthen, due to 1) Indonesia's strong trade surplus (rising commodity costs) driving strong economic momentum; 2) Bond yields have been relatively stable (10Y: 7.2%); 3) BI projects a current account surplus of up to 0.3% of GDP by year end; and 4) inflation is contained at 4.9%.
First REIT trades at FY22E P/B of 0.8x and 9.4% distribution yield. Cost of debt has lowered to 3.7% (FY21: 4.2%) as lower-cost Yen debt take a bigger share of total debt. First REIT's Indonesian assets have a minimum rental escalation of 4.5% per year. As with all REITs, the near-term concerns are rate hikes and a possible recession. Maintain HOLD at TP S$0.32. *(Peggy Mak)*

Japfa <1H22 Earnings Review> | 1H22 revenue rose 10.4% yoy, driven by higher ASP for poultry and raw milk. However, EBITDA fell 27.7%, and net earnings 62.9% lower, due to 1) higher commodity prices for corn and soybean raised raw materials costs for animal feed; 2) weak swine prices as the outbreak of African Swine Fever in 4Q2021 caused farmers to bring forward the sale of their flock; 3) higher cost of feed for poultry, swine and cattle; and 4) reduction in fair value of the dairy business due to higher feed costs.

Prices of corn have retreated to the level at end 2021, as Ukraine resumes shipment of grain and demand expected to ease with a slowdown in the macro economy. Domestic consumption in Indonesia and Vietnam are expected to improve with re-opening and strong exports. Japfa's plan to list the 75%-owned dairy business on the HKEX is still on track. In conjunction with the listing, it plans a distribution-in-specie of the shares in the dairy business to the shareholders of Japfa. *(Yeo Peng Joon)*

Pan-United <1H22 Results Update> | 1H22 results are in line with our expectations. Revenue of S$338m and net profit of S$13m are 46%/44% of our estimates. Revenue rose 22% yoy on the back of sector recovery and a steeper climb in ready mixed concrete ASP. Net profit grew 94% yoy due to higher gross margin of 22.6% (FY21: 21.6%) and share of profits from associates (S$3.6m, +168% yoy). Its associate, PT Lanna Harita Indonesia, is in coal mining. Profits have jumped as a result of higher ASP. The mine is already producing at its optimal capacity. Coal price of US$393.50/tonne is up 164% yoy and is expected to sustain at this high level given that there is a global energy supply crunch and coal is an alternative to gas. Thus, we expect its associate to continue to contribute positively in 2H and a greater contribution to come from climbing coal prices.

The pace of recovery in construction activities has lagged as the sector is negatively impacted by 1) stop work orders due to safety issues, 2) dengue cases at construction sites and 3) low worker productivity. Although new workers are brought in continuously, they are unskilled and are unable to immediately replace those skilled workers that left. This issue is likely to persist in the sector for ~1 year as the new workers gain skills, shorter if those skilled workers return. Nevertheless, we remain positive about the sector prospect as construction demand remains robust. Changi Airport T5 project has resumed and contracts for the infrastructure are waiting to be announced. *(Lim Shu Rong)*

First Sponsor <1H22 earnings release> | 1H22 revenue fell 26.5% yoy to S$115m and net profit increased by 15%, in line with our expectations. There was a 28% decrease in revenue from the property development business, due to a lower handover volume of 40 SOHO units, compared to 619 SOHO units in 1H21. This revenue drop was cushioned by an uplifting of the hotel business (revenue increase yoy of 159%), primarily driven by improved European hotel performance, and higher hotel revenue arising from the acquisition of 95% equity interest in the Dutch Bilderberg Portfolio from its 33% owned FSMC in May 2022. The property financing business showed the steepest yoy revenue fall of 74%, with its loan book being pared down greatly by 47% hoh. Management expects the loan book to decline further with the relaxation of Chinese bank lending restrictions.

We expect property development revenue to show a yoy decrease in 2H22, with the bulk of properties to be handed over being 4 residential blocks from its 27% owned Skyline Garden joint venture project. The Group has entered into 2 new JVs in July 2022 to purchase 2 residential land banks, which will see a sustained long-term profit pipeline from the Dongguan development area. We think the Group's hotel operations will see improved hoh results, as travel sentiments continue to increase and the year-end holiday season approaches. Going forward, the Group's key revenue drivers will be its property development and hospitality business. *(Christopher Ong)*

Prime US REIT <1H22 earnings release> | 1H22 revenue and NPI increased 13.5% and 9.7% yoy. NPI margin decreased slightly yoy to 62% (1H21: 64%), mainly due to an increase in property taxes and utilities, which rose by 20.4% and 30.9% yoy respectively. The manager recovers a large proportion of these property taxes and utilities as recovery income from the tenant, therefore cushioning the fall in margins. DPU has increased by 5.7% yoy, but the annualised DPU yield has risen sharply to an attractive 10.5%, largely attributed to the 22% fall in unit price yoy.

1H22 portfolio occupancy stands at 89.6% (1Q22: 89.9%). Leasing sentiments have improved in 1H22, with leasing activity increasing to 257.5k sqft, a 134% increase yoy. Short term lease area declined to 7.4k sqft in 2Q22 (1Q22: 32k sqft). Management is currently focusing their efforts on finding new tenants for the space vacated by WeWork at Tower I at Emeryville last year, as well as the large space (~50% of lettable area) vacated by Whitney, Bradley and Brown at Reston Square in July 2022. Management is confident of marketing efforts and interest in the vacant spaces, and we expect the vacancies to be filled with new tenants in 2H22.

Rental reversion was +11.2% for 2Q22, and was driven mainly by the finance, professional services and healthcare sectors. We expect further positive but smaller reversions in 2H22 as weighted average in place rents are lagging behind annual asking market rents, which gives a potential of +5.3% reversion. *(Christopher Ong)*