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This is SAC weekly newsletter for 26 Jan 2022

Market Moves

Global markets were spooked by expectation of an earlier rate hike. FOMC statement on Wednesday confirmed that the Fed will finish quantitative easing asset purchases in early March, with a fed funds rate hike highly certain to take place at the same time.

Tech stocks were hardest hit as price multiples contract with lower growth expectations. This is bad news for the SPACs, whose acquisition targets are likely to be growth stocks in the tech space. Novo Tellus Alpha Acquisition fell below the issue price on its first trading day. Investors who can hold out for 24 months will find it attractive as they may redeem the shares at S$5 and keep the warrants if an acquisition target is not identified.

MAS surprised with a policy tightening that lifted the strength of S$, ahead of the bi-annual scheduled meeting in April, to fight the higher inflation. The stronger S$ will benefit the companies that sell to the domestic market, such as Sheng Siong, Pan United and BRC Asia, via lower import prices. This could also help to reduce margin pressure for the construction sector.

Singapore shortens the isolation period for COVID patients from 10 to 7 days, a positive step towards lowering business costs and raising productivity. We see continued efforts by the authorities to push for easier quarantine measures to allow more international travel and events to be hosted. According to WHO Hans Kluge in an interview with AFP, the Omicron variant has moved COVID pandemic into a new phase and could bring it to an end in Europe. We certainly wish that this would come earlier, not just for Europe, but also for the rest of the world. Already we have seen a casualty in cruise operator Genting HK.

Analysts' Notes

Credit Bureau Asia | CBA provides an overview of its business in Futu-AFS Investment Webinar 2022. The Group is poised to grow its topline as digital banks goes operational in 2022. Aggressive onboarding of banking customers to capture market share boosts the need for credit bureau services. CBA holds a dominant market position (99.9% share) as a service provider to financial institutions (FI). Interest rate hike environment could reduce borrowings and impact services provided to existing FI. CBA also holds the sole credit bureau licenses in Cambodia and Myanmar. Performance from Myanmar remains muted given the ongoing political instability. The Group has declared an interim dividend of S$0.017/ share,

100% payout of its 1H profits, and it intends to maintain the payout ratio of at least 90% for FY21 and FY22. Currently, CBA is trading at a PE of 30.8x and is in a net cash position of S$54.3m. *(Lim Shu Rong)*

ARA Logos Logistic Trust | ESR-REIT increased the scheme consideration for ALOG unitholders from 95 cents per ALOG unit (9.5 cents in cash and 1.6765 in ESR-REIT units) to 97 cents per ALOG unit (9.7 cents in cash and 1.7729 in ESR-REIT units). This represents a 2.1% improvement in terms of cash consideration and 5.8% increase in terms of consideration units. This came after proxy advisers recommended ALOG unitholders to vote against the merger over the scheme valuation and transparency of the merger process. The scheme consideration translates to a P/B of 1.4x based on ALOG's latest FY21 NAV.

ALOG saw FY21 revenue (+15.2%) and NPI (+16.6%) grow on the back of stronger overall portfolio performance and the successful acquisition of Australian assets in April 2021. However, DPU fell slightly (-4.1%) from 5.250 S cents to 5.034 S cents (Div Yield: 5.8%) due to an enlarged unit base following an equity exercise in relation to the Australian acquisition. On the other hand, ESR-REIT saw FY21 revenue and NPI increase 5.0% and 5.5% while DPU was up 6.7% to 2.987 S cents (Div Yield: 6.8%). We believe that synergies could be achieved between the merger, including reduction in competition for sponsor pipeline and lower cost of funding. The merger is also DPU and NAV accretive for ALOG unitholders. We are, of the view, that ALOG unitholders should vote in favour for the merger. *(Lam Wang Kwan)*

Hotels | Singapore Tourism Board reported that hotel room revenues fell by 20.9% y-o-y in 2021, following 70.5% fall the year before. RevPAR improved slightly by 0.7% to S$89.02 while average room rate increased by 2.7% to S$158.32, however occupancy rates fell slightly from 57.4% in 2020 to 56.2% in 2021. The path to recovery for the hospitality industry and hospitality REITs is expected to remain volatile until the spread of Omicron variant stabilises. *(Lam Wang Kwan)*

Company News

Yangzijiang Shipbuilding | Has obtained SGX's confirmation that its proposed spin-off of the investment business does not constitute a chain listing and is permitted to proceed. YZJ has proposed to spin-off its investment business via a dividend in specie and list the business on SGX Mainboard by way of an introduction. The investment operations are involved in lending (net loans book as at Sep 21: RMB10.9bn) and fund investment and management. Our back of envelope sum-of-parts NAV estimate for YZJ is S$1.83/sh.

Keong Hong | LJHB Capital further acquired 19% stake from the CEO, triggering a GO at S$0.384/sh. This is a 49% discount to NAV of S$0.678/sh. LJHB now holds 45.8%. CEO Leo, with a remaining stake of 11%, will not accept the offer.

Keong Hong incurred net loss of S$0.072/sh for FY21 (Sep). Although net gearing is low at 0.4x, the company has net current liabilities of S$26.2m. It has breached a financial covenant and is seeking bondholders' rectification for S$48m 6.25% MTN due Aug 2023. The notes are now redeemable with the

change in control of the major shareholder.

As with other listed construction companies, Keong Hong has a large outstanding orderbook of S$482m as at Sep 21. Construction progress were hampered by manpower crunch and COVID measures, though this could pick up with border re-opening allowing more workers to return. But margin pressure from rising material and manpower costs will linger.

No Signboard | The company requested a trading suspension to address going concern issue, after a placement of 77.8m new shares to raise S$3.5m fell through. The company was in net current liabilities of S$2.2m as at Sep 21, and S$3m cash has been earmarked for a loan repayment.

NSG's restaurant and beer business suffered from the dearth of tourists and COVID restrictions on the operation of bars and pubs. Total net loss of S$16.2m over the last 2 years have reduced equity to S$0.38m.

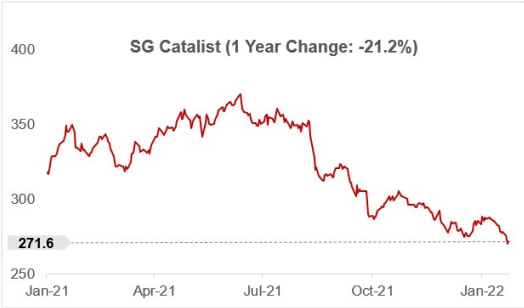
COVID impact on the F&B sector has been uneven, with those who adopt the QSR model with a central kitchen faring better. This model caters to the trend of takeaways, enjoys higher sales turn, utilizes less floor space and service staff. Despite pent up demand for dining out, the cap on seating capacity constrains sales recovery for full-service restaurants.

Livingstone Health | Livingstone issued 2.9m new shares at S$0.156 as part payment for the acquisition of 51% of Pheonix Medical Group. The new shares form 0.9% of the enlarged share cap. In 1H21, PMG generated S$0.19m net profit, about 7% of Livingstone's profit, or ROI of 12%.

Don Agro International Limited | partners with Cargill to feed cattle at its biggest farm in Novoselovka. Implementation of Cargill's feeding programs and digital solutions (i.e. Dairy MAX™, Dairy Enteligen™) helps to improve general wellbeing of cattle, increase milk yield (~12% increase) and improve cost control. The farm has over 650 milking cows, representing 30% of the Group total herd of milking cows.

DiSa Limited | signed with two healthcare providers to test the scalability of its Automated ART machine in Feb. ART test will be done at the machine and the entire process is captured. ART kit. Results are uniquely tagged to users for trail purposes. The process is quick and efficient, taking no longer than 5 min. If scalable, the machine can be deployed to locations with high demand such as schools and dormitories.





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