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This is SAC's weekly newsletter for 22 June 2022. Thank you for reading.

Analysts' Notes

Singapore May CPI | May CPI rose 5.6% yoy (Apr: +5.4%) and +1.0% mom, led by utilities (+13.6%) and transport (+15.5%). Revenge travel lifted holiday expenses (+3.6% yoy, +2.3% mom). The increase in food (+0.6% mom) and public transport (+2.1% mom) are hardest hit on the lower income households. Hence, it came as no surprise when the authorities rolled out S$1.5b relief measures to help these households and corporates mitigate some of the impact. Still, if the intention to raise GST by 1% pt in Jan 2023 and another 1% pt in Jan 2024 stay, this could bring forward spendings on durable goods, keeping CPI elevated till 2H22. *(Peggy Mak)*

First Sponsor <Management meeting> | First Sponsor expects to handover and book profits from 2 remaining blocks (out of 8) at 60%-owned Pinnacle project and 27%-owned Skyline Garden, mainly in 2H22. FY22E revenue is therefore expected to be lower than FY21. Most of the cash have been collected at pre-sale. Profit recognition from development projects will pick up substantially from FY23E with handover of bigger projects such as 17%-owned Time Zone and 95%-owned Primus Bay. The hotels in Europe are thriving from rebound in travel, while the Chinese hotels are still operating as quarantined facilities. Hotel operations are likely to significantly improve. We expect a marginal profit from pretax loss of S$32.5m in FY21. Rental rates on their European office buildings are pegged to an index tied to CPI. The property financing operation, which contributed 53% of FY21 pretax profit, might be lower in FY22E with monetary easing in China and the authorities' call for banks to extend credit to SMEs. *(Christopher Ong)*

Serial System <1Q22 earnings release> | 1Q22 net profit fell 77% to US$0.6m, though revenue remained flat (-1% yoy) at US$221.8m and gross profit margin added 0.9% pt to 8.6%. The decline was due to US$1.2m provision for inventory (vs writeback of US$1.1m in 1Q21), fair value loss on equity investment and higher interest costs. On a q-o-q basis, revenue has declined for a second consecutive quarter by 3%. Chip shortages have impacted companies across the board. Willas Array Electronics, a Hong Kong-based electronic component distributor, has also registered an 8% h-o-h decrease in 2H results ending 31 Mar 2022. WT Microelectronics (3036 TT)'s 1Q revenue was flat as well. Demand for mobile phone applications has waned as seen from WT's chip sales for the segment which contracted 28% qoq. Interests have shifted to other end markets such as automotive and industrial applications. ON SEMI, one of the Group's main principals, has forecasted 2Q22 topline to grow at 1-6% qoq. 65% of its total revenue was derived from automotive and industrial applications. We are seeing more IC distributors optimizing a different sales mix to include products of higher demand which will help to stimulate sales growth and improve gross margin. Serial System has a high net gearing ratio of 83% as of end FY2021. *(Lim Shu Rong)*

AIMS APAC REIT <Management meeting> | Management shared their strategy going forward: 1) focus

sale and leaseback. After the success with Illumina, management is exploring more built-to-suit model for other tenants. AA REIT enhanced NorthTech to meet the needs of Illumina, and the latter raised its tenanted space from 60% to 100% with a 10-year lease renewal in 2H22. Illumina now accounts for 8.9% of AA REIT's total GRI. AIMS APAC REIT trades at P/NAV of 0.97x, and distribution yield of 7.01%, vs SG 10-year bond yield of 3.05%. *(Christopher Ong)*

Jason Marine <Management meeting> | Enquiries from customers have picked up post re-opening, and more projects are coming back on-stream after a slowdown in the past 2 years. This is reflected in Singapore April output of marine and offshore engineering work, which rose 27.6% yoy, and 18.3% from Jan-Apr. Higher crude prices, shipbuilding orderbook and easing of travel restrictions are tailwinds for the sector. We believe Jason's order intake and FY23 (Mar) revenue could return to pre-pandemic level. As with other project engineering companies, it faces execution challenges from component/equipment shortage which might delay revenue recognition and risk of rising cost. *(Lim Shu Rong)*

Allied Technologies <General offer> | SRS Auto Holdings launched a GO of Allied Tech at S$0.0088/sh or S$15.6m. This is at FY21 PE of 12.7x, 20% below last traded price of S$0.011, and 0.23x of NAV of S$0.039/sh. NAV drops to S$0.019 if we exclude S$33.2m funds that were purportedly missing. SRS has received irrevocable acceptance from 42.7% stakeholders. The deal is conditional on it collecting a 90% stake, and it has intention to delist. SRS Auto is in the business of private car leasing and motor financing. *(Yeo Peng Joon)*

mm2 Asia <Bond issuance> | mm2 Asia plans to issue S$54m-S$63m worth of 5% 2+1 year exchangeable bond (EB), which are exchangeable into 51.4%-60% stake in its cinema assets (under mm Connect). These value the assets at S$90m, up to S$105m if the cinemas generate aggregate EBITDA of S$27m for FY23E and FY24E. With late April re-opening and cinemas in Singapore and Malaysia operating at full capacity, EBITDA is en-route to recover to pre-COVID level of S$39.3m in FY19 (Mar). FY22 that just ended in March was possibly the worst year for cinema (EBITDA: S$20m) with Malaysian outlets closed and Singapore at 50%.

The proceeds could go towards repayment of S$54m convertible notes tied to cinema assets. The conversion of EB will de-conso cinema's debt, which we estimate will substantially reduce mm2's net debt to S$35m. The EB comes with 250m free warrants, exercisable into new shares at S$0.065 each to raise S$16.25m, representing 8.2% of enlarged share cap. The bond issue is subject to approvals, consents and waivers from regulatory authorities, shareholders and contracting third parties.

mm2 is primed for recovery to pre-COVID level with catch-up in film output and releases, and a strong line-up of concerts and events in Singapore under UnUsUaL. Pent-up demand will drive cinema income through higher ticket sales, F&B and advertising income. Singapore's border re-opening also draws foreign artistes here for co-production work, which can also be sold in these foreign countries. *(Peggy Mak)*

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