

KGI TOP PICKS – 31 AUGUST WEEK



Avarga

- Laggard Covid-19 play
- Benefitting from high lumber prices in North America
- Fair value of S\$0.43 vs current price of S\$0.28



ISDN

- Riding on automation wave accelerated by Covid-19
- Better 2H2020 vs 1H2020, bringing ISDN to new highs
- Catalysts from stronger-than-expected sales, margin improvement, upside surprise from Indonesia hydropower operations, and successful expansion of new disinfectant business.
- OUTPERFORM S\$0.47 target price

Company	Catalyst
TECHNOLOGY	
AEM (AEM SP)	Strong capex spend by Intel
Silverlake Axis (SILV SP)	Expansion of its insurance Software-as-a-Service (SaaS) in Japan, and potential new business areas from digital banking license in Malaysia
ISDN (ISDN SP)	Overdue rebound in Industrial Automation, led by China
Frencken Group (FRKN SP)	Strong order momentum from semiconductor clients, mainly ASML
CHINA	
Yanlord Land (YLLG SP)	China's strong property rebound
Jiutian Chemical (JIUC SP)	Perfect operating environment of higher selling prices, lower raw material costs and better utilisation. One of the largest manufacturer of DMF/methylamine in the world.
Sasseur REIT (SASSR SP)	Upside potential linked to China's growing outlet retail mall sales, while offering downside protection with a fixed income component that increases 3% per annum until 2028
EC World REIT (ECWREIT SP)	The only specialised and e-commerce logistics S-REIT that provides investment access into China's booming e-commerce industry
HEALTHCARE / CONSUMER	
Singapore Medical Group (SMG SP)	Well-diversified small-cap medical services provider riding on healthy growth in Southeast Asia and Australia
ThaiBev (THBEV SP)	V-Shape in Thailand's economic growth in 2021
COMMODITIES / PRECIOUS METALS	
Shandong Gold (1787 HK)	Proxy to gold prices where we have a target of US\$1,900/oz in 2020
CNOOC (883 HK)	Largest upstream oil & gas company in North Asia with the highest beta to oil prices

2H 2020 PICKS

- **Technology**
 - **A much bigger disruptor than Covid-19**
- **China-focused companies**
 - **First In First Out**
- **Consumer**
 - **Thailand discretionary**
 - **ASEAN healthcare**
- **Commodities**
 - **Gold**
 - **Oil**

ROTATION AMONG PENNY CAPS

Name	Last Done	Market Cap (M)	20 Days % Chg	26 Wks % Chg	52 Wks % Chg
Medtecs Intl	1.52	835	69	1534	5530
Vicplas Intl	0.6	305	335	483	770
Jiutian Chemical	0.057	104	280	338	375
Riverstone	4.1	3,038	9	298	325
Aspen	0.28	275	419	250	124
ISDN	0.405	176	53	104	88
AEM	4.09	1,123	15	92	286
Avarga	0.275	260	94	81	45
Biolidics	0.38	100	-8	77	73

BEST PERFORMING STOCKS on SGX

Name	Last Done	Market Cap (M)	20 Days % Chg	26 Wks % Chg	52 Wks % Chg
UOB	19.66	32,821	1	-19	-21
Ascendas-iTrust	1.32	1,515	-6	-20	-8
HongkongLand USD	3.9	9,102	3	-21	-29
ThaiBev	0.615	15,446	-4	-21	-32
CapitaLand	2.78	14,436	1	-21	-20
ComfortDelGro	1.52	3,293	12	-22	-38
JMH USD	42.02	30,636	3	-23	-23
Singtel	2.3	37,459	-7	-23	-27
SATS	2.98	3,331	9	-26	-38
Keppel Corp	4.63	8,424	-14	-27	-21
Jardine C&C	19.11	7,553	-4	-29	-38
SIA	3.68	10,911	8	-35	-41
SPH	1.09	1,752	2	-42	-45

WORST PERFORMING STOCKS on SGX

COVID UPDATE

- **US\$5 rapid test by Abbott Labs**
 - Received emergency approval from US Food and Drug Administration
 - Abbott's rapid antigen can detect a Covid-19 infection in 15 minutes
- **AstraZeneca vaccine expected to be available by November 2020**
- **Moderna and Pfizer**
 - Phase 3 testing before November
 - Currently halfway to enrolling their Phase 3 trials

544

**Drugs and Vaccines in
development to target Covid-19**

The background features a dark blue gradient with several circular gauges and arrows. The gauges have numerical scales ranging from 140 to 260. Some gauges have solid lines, while others have dashed lines. Arrows indicate clockwise or counter-clockwise directions. The overall aesthetic is technical and data-oriented.

Avarga Limited

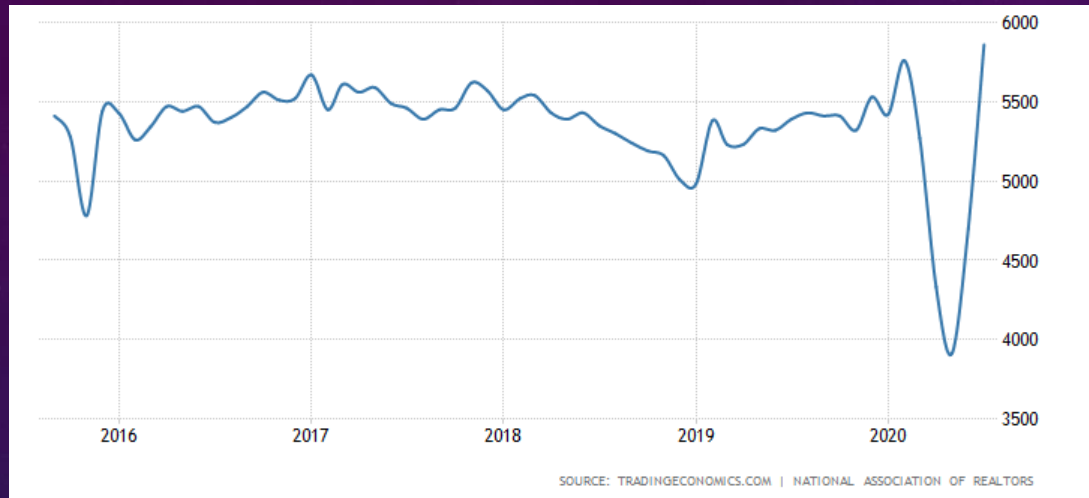
Laggard COVID-19 Play

RESEARCH

GUANGZHI, CFA

BOOMING HOUSING MARKET IN US

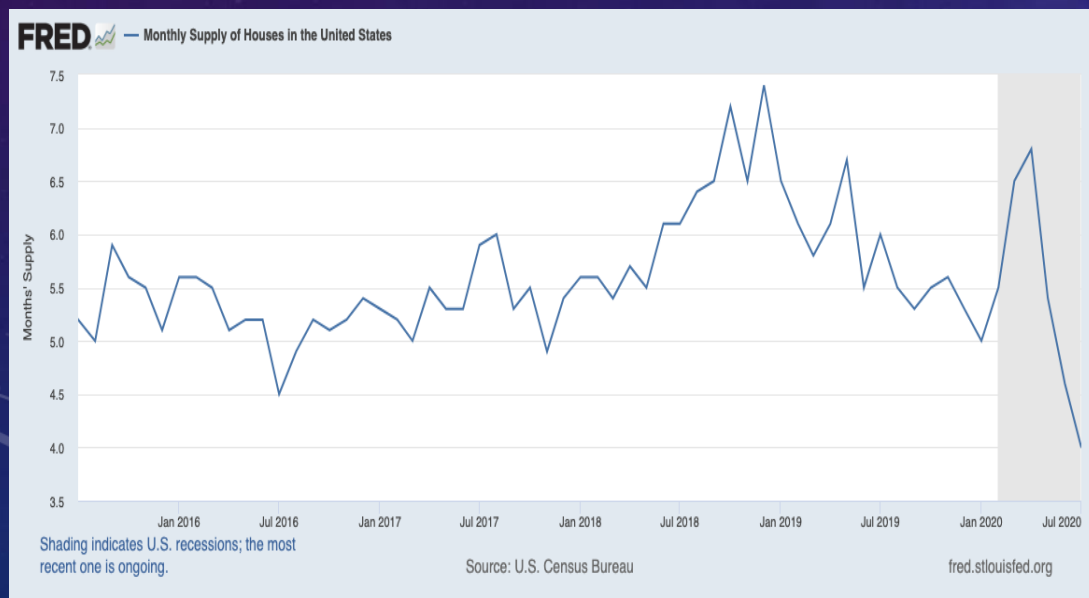
Existing home sales



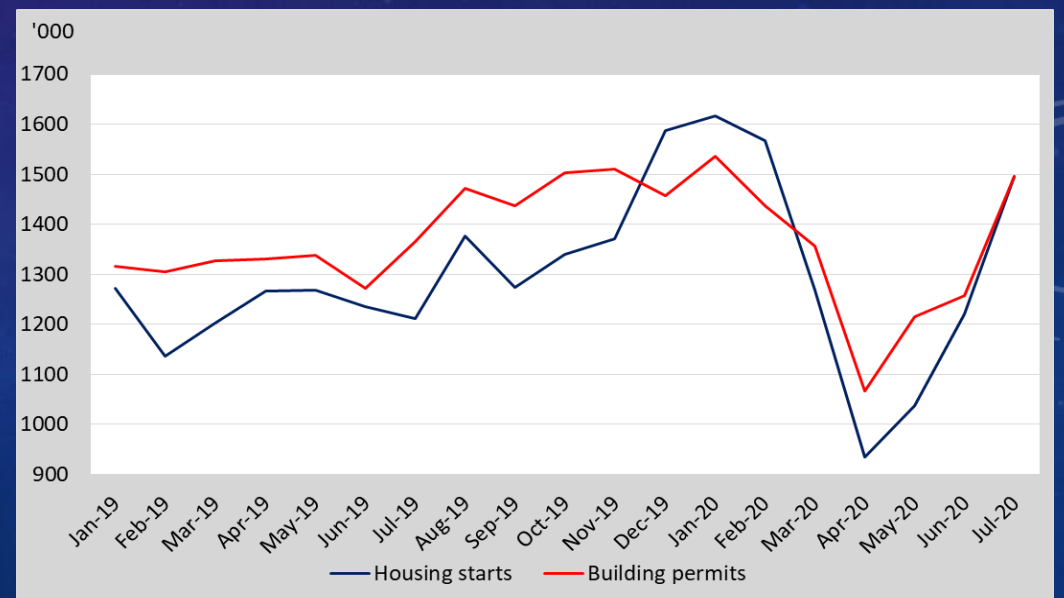
New home sales



Monthly supply of houses



Housing construction (seasonally adjusted)

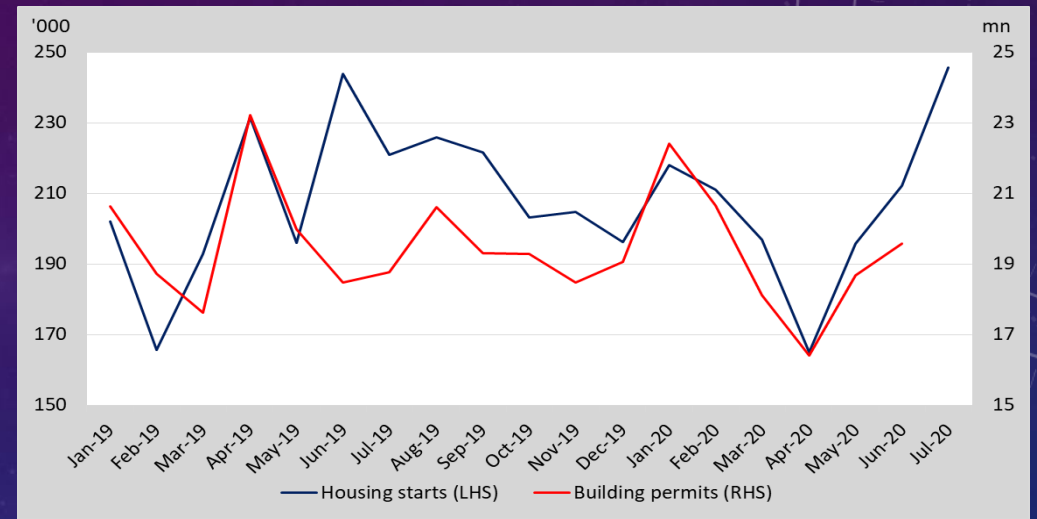


HOUSING MARKET GETTING HOT IN CANADA

New housing price index

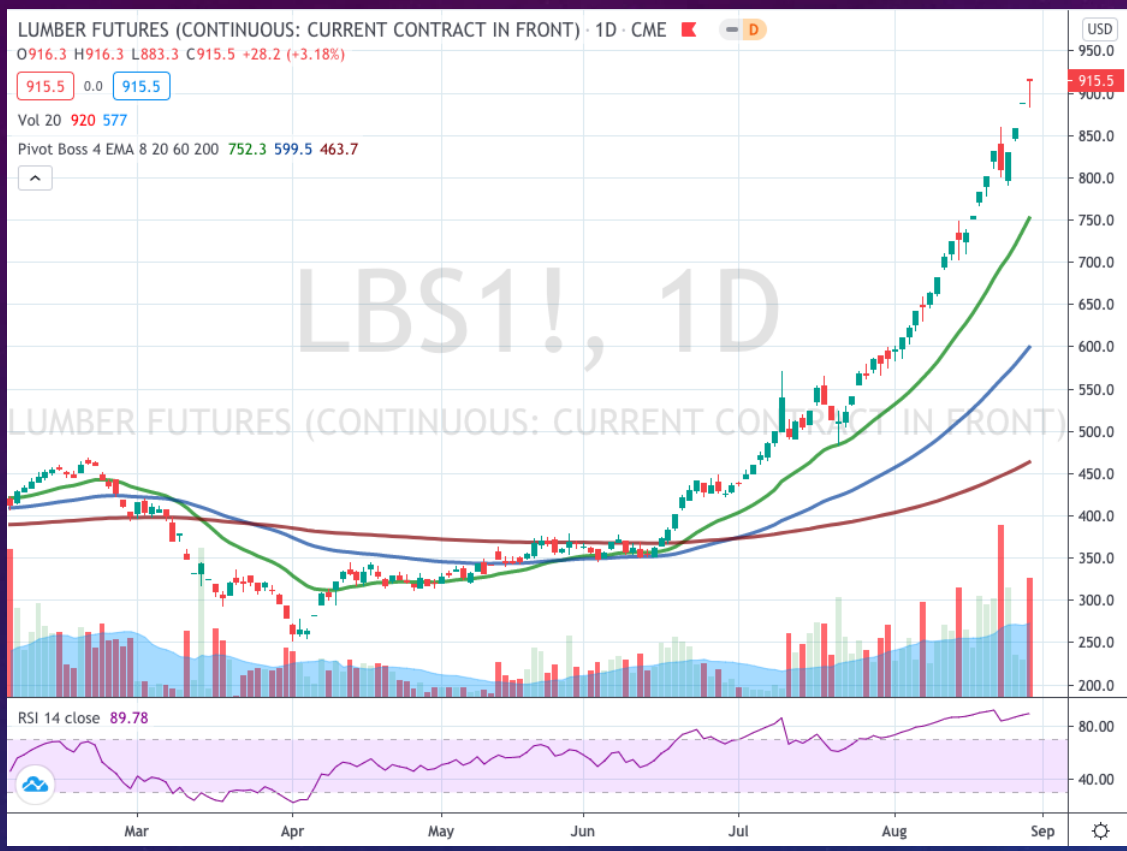


Housing construction (seasonally adjusted)

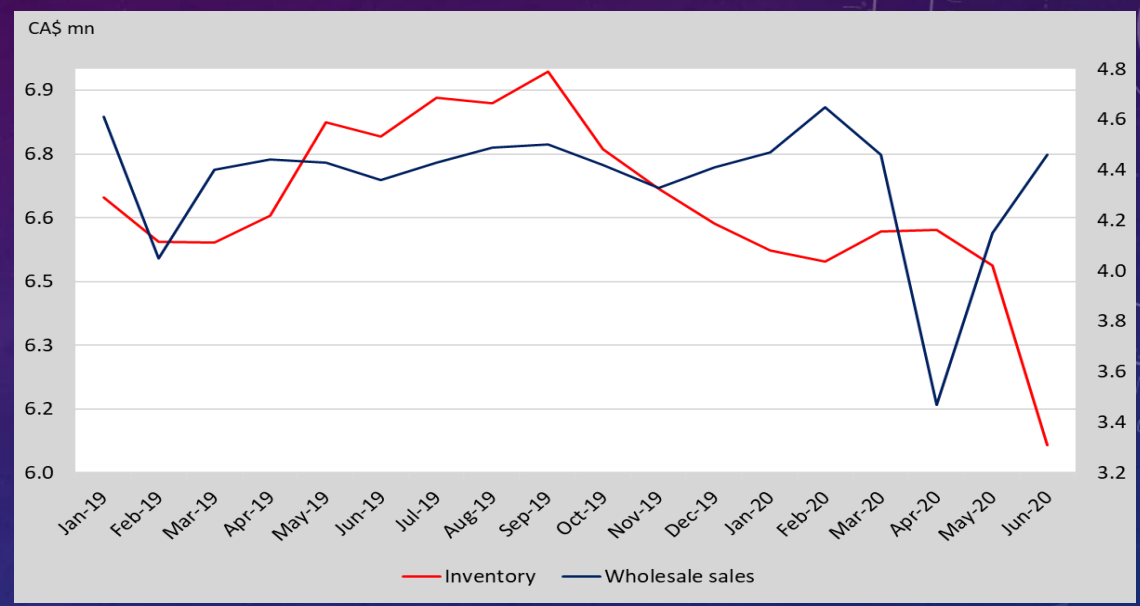


LUMBER SOARS

Exploding lumber price

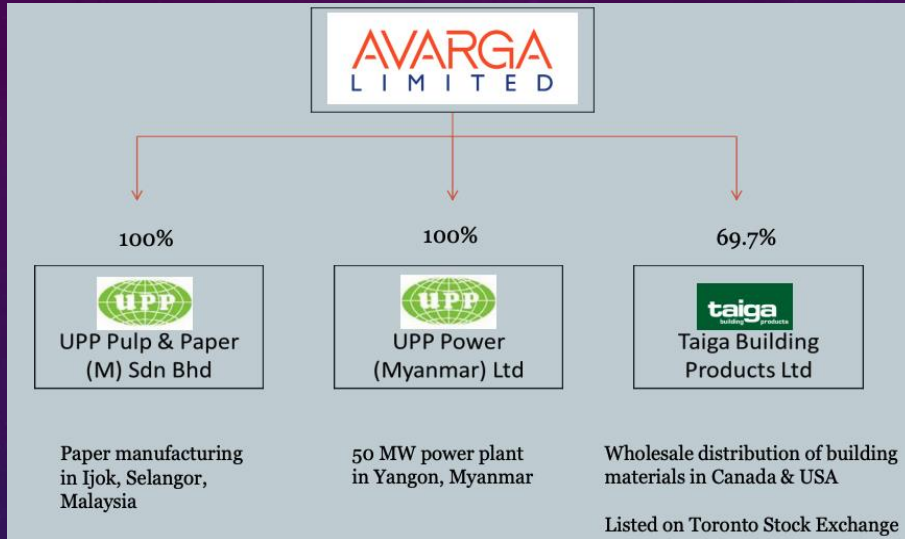


lumber, millwork, hardware, and other building supplies

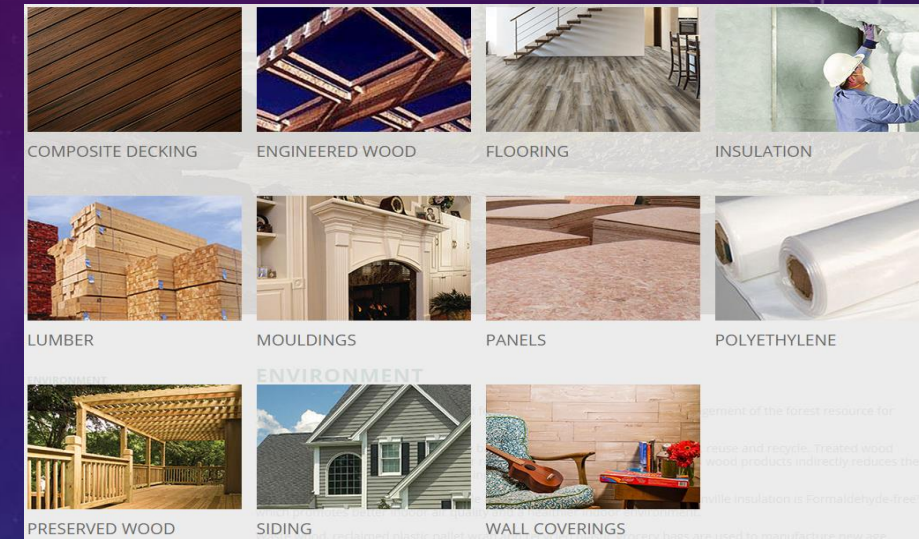


COMPANY BACKGROUND

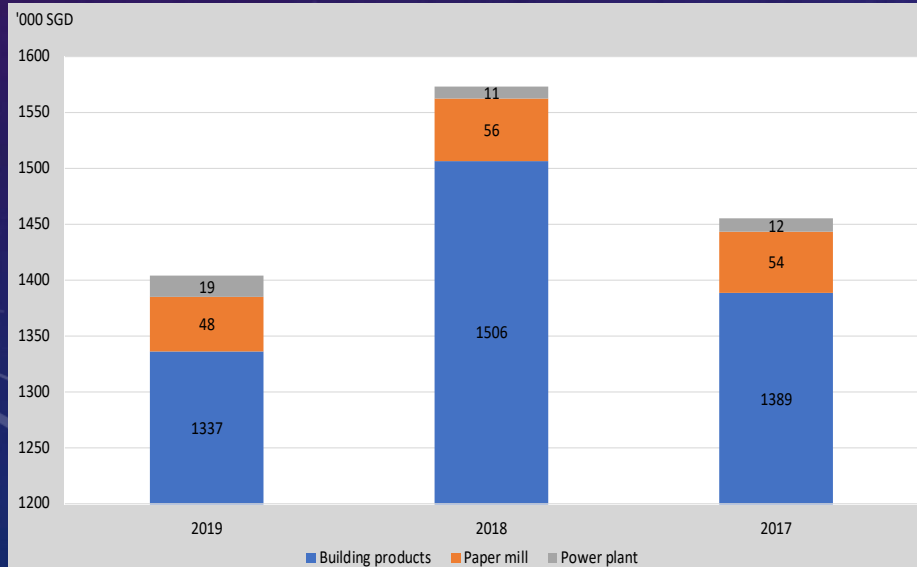
Corporate structure



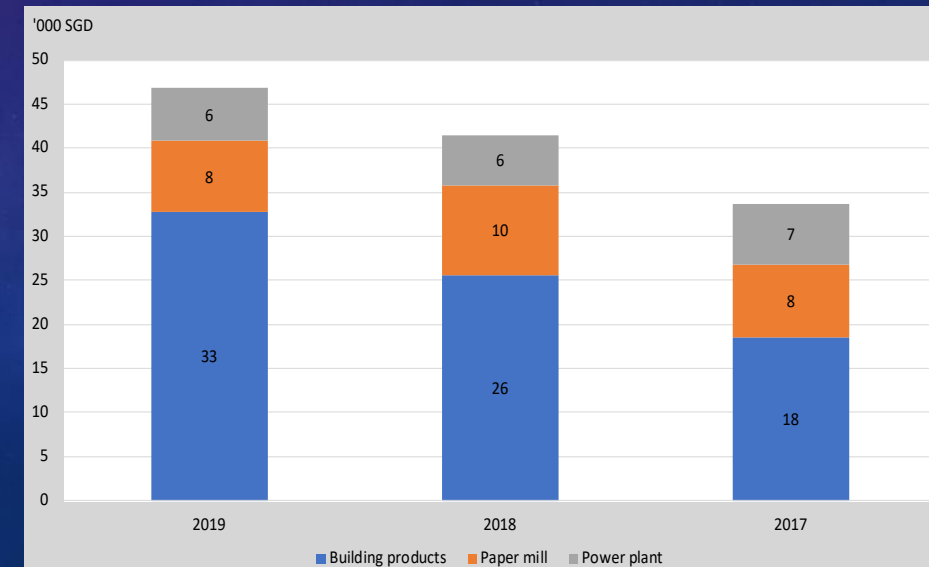
Taiga's main products



Revenue breakdown



PBT breakdown



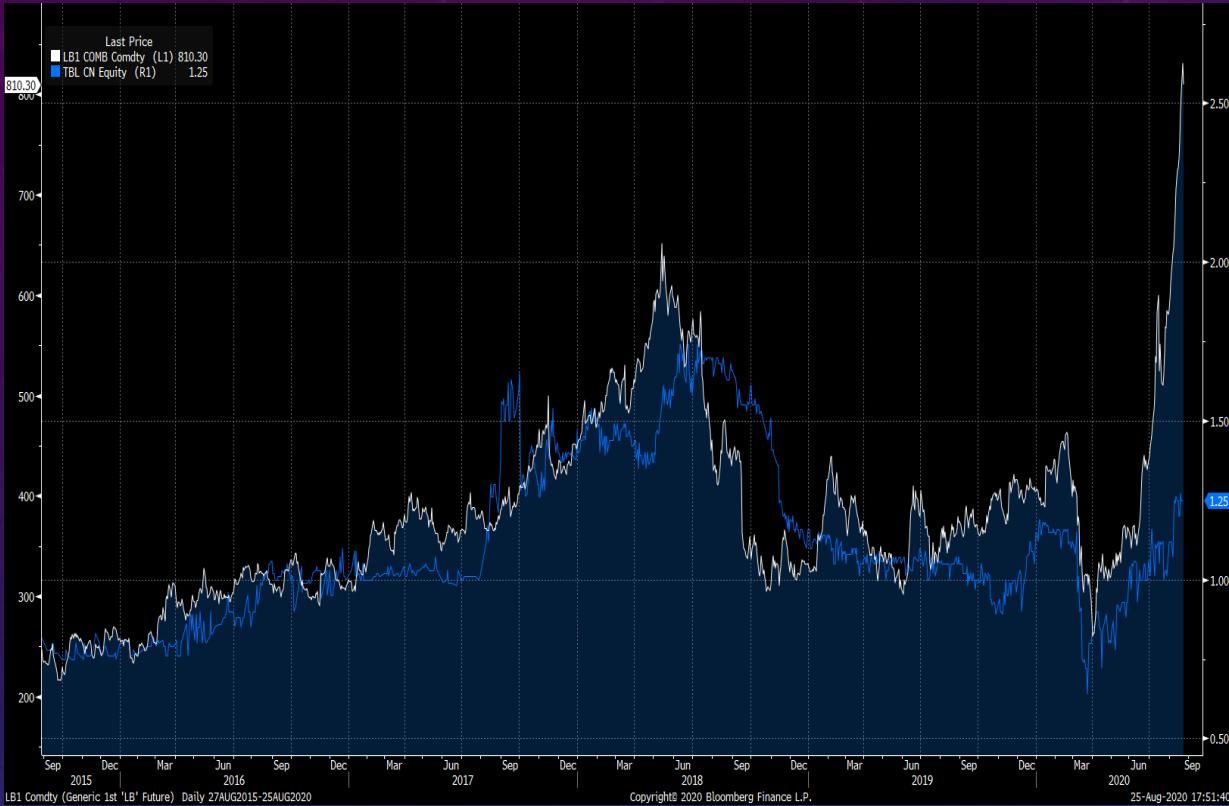
TAIGA BUILDING PRODUCTS

- Two major business drivers – housing starts (in relation to sales volume) and the price of lumber (in relation to product pricing)
- Minimum fair value of S\$0.43 for Avarga

Profits Quarterly forecast (Taiga only)	Remarks
1Q20 (CAD\$) mn	6.60
2Q20 (CAD\$) mn	13.00 Lumber prices started to rise significantly from end-June 2020
3Q20 (CAD\$) mn	23.17 Weighted average based on increase in lumber prices
4Q20 (CAD\$) mn	13.00 Lumber prices to correct back
FY2020F Earnings (CAD\$) mn	55.77
CAD/SGD	1.04
FY2020 Earnings (SGD) mn	57.78
70.78% share to Avarga (SGD) mn	40.90 Avarga owns 70.78% of Taiga
PE Multiple	10.0 Avarga's 3-year historical average P/E
Fair value (SGD) mn	409.00
Shares outstanding	946.50 Avarga shares outstanding
Price target (SGD)	\$0.43
Current price (SGD)	0.215
Upside (%)	101%

QUANTITATIVE ANALYSIS

High correlation between Taiga' share price and lumber price



Regression analysis (5 years regression)



The background features a dark blue gradient with a subtle pattern of white dots. Overlaid on this are several faint, light-colored circular elements. A prominent feature is a large circular scale on the left side, with numerical markings from 140 to 260 in increments of 10. Other circular elements include dashed lines, solid lines, and arrows, some pointing inwards and some outwards, creating a sense of motion or data flow.

Silverlake Axis

RESEARCH

KENNY

SILVERLAKE 4Q FY20 UPDATE

- **Overall weak results, as expected**
 - Sales estimate in line, PATMI at 11% beat due to RM 32mn from recognising a deferred tax asset
 - Excluding Other Income and this RM 32mn, PATMI would have been 128.9mn, 78% of estimate
- **But FY20 should be the trough**
 - Pipeline at ~RM 1.6bn (up from 1.2bn in 2Q FY20)
 - Secured backlog/order book of RM 390mn (up from 320mn in 3Q FY20), largely to be recognised in FY21
 - Generally expecting ~10% growth in software, 8-9% growth in Maintenance Enhancement Services, maybe 20% growth in Meriman insurance processing

Values in SGD '000	FY20F	FY20A	% of estimate	Variance
Revenue	664,317	663,692	99.9%	
Cost of sales	-265,727	-271,960	102.3%	
Gross Profit	398,590	391,731	98.3%	
Operating expenses	-166,079	-171,983	103.6%	
Profit from Operations	232,511	219,748	94.5%	
Finance income/(expenses)	-14,150	-30,686	216.9%	
Profit before Tax	218,361	189,062	86.6%	
Net profit	165,954	184,672	111.3%	
PATMI	165,964	184,676	111.3%	
<i>Gross Margin</i>	<i>60.0%</i>	<i>59.0%</i>		<i>-1.0%</i>
<i>PBT Margin</i>	<i>32.9%</i>	<i>28.5%</i>		<i>-4.4%</i>
<i>Net Profit Margin</i>	<i>25.0%</i>	<i>27.8%</i>		<i>2.8%</i>
EPS (in Scents)	6.27	7.13	113.8%	

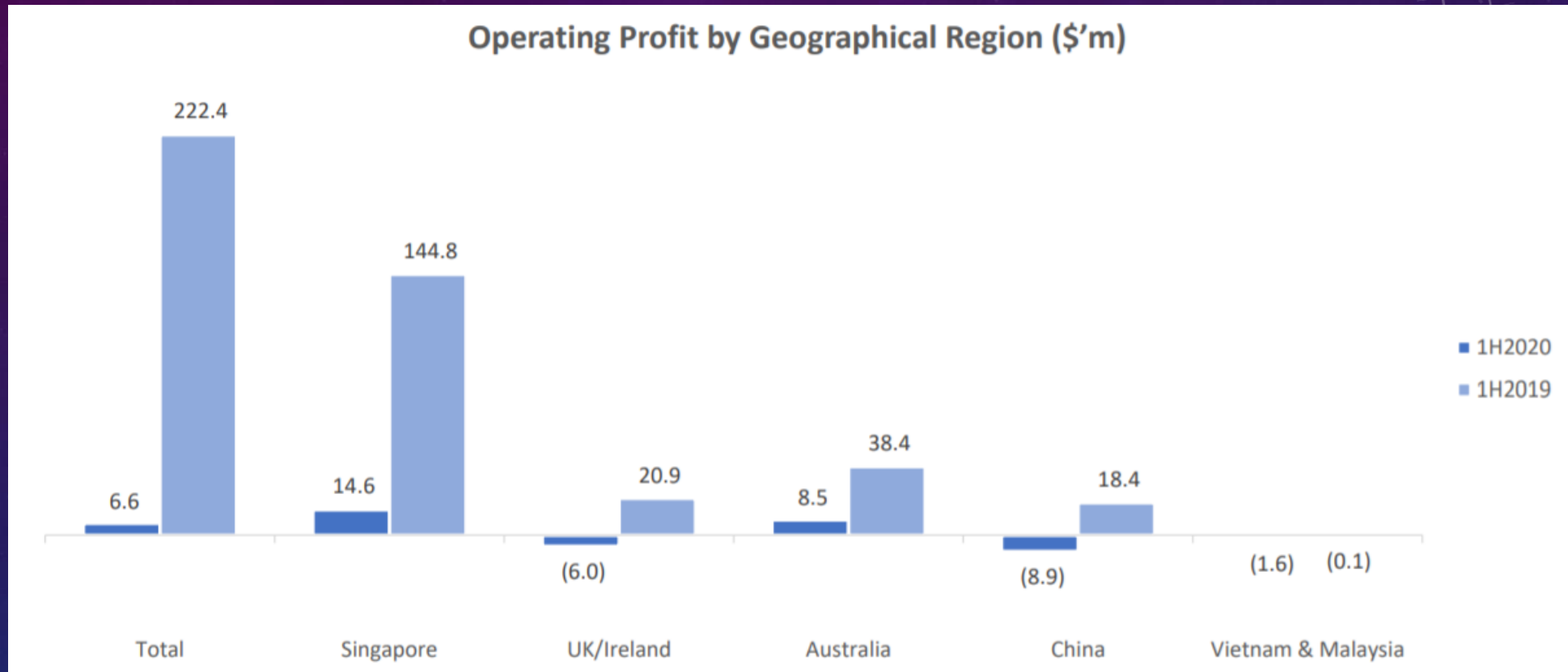
The background features a dark blue gradient with a starry space pattern. On the left side, there are several technical diagrams, including circular gauges with numerical scales (140, 150, 160, 170, 180, 190, 200, 210, 220, 230, 240, 250, 260) and various circular arrows indicating motion or flow. The text 'ComfortDelGro' is prominently displayed in the center-left area.

ComfortDelGro

RESEARCH

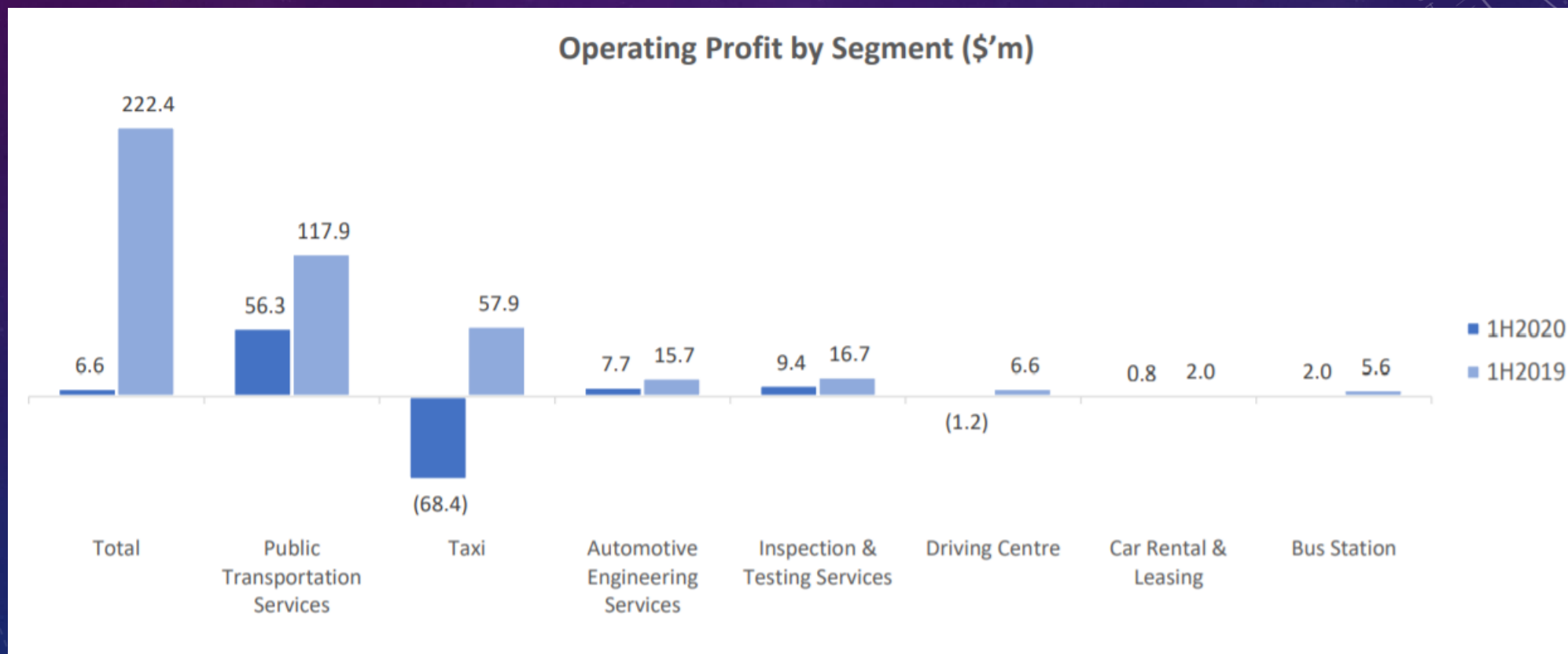
JOEL

COMFORTDELGRO – OUTPERFORM S\$1.63



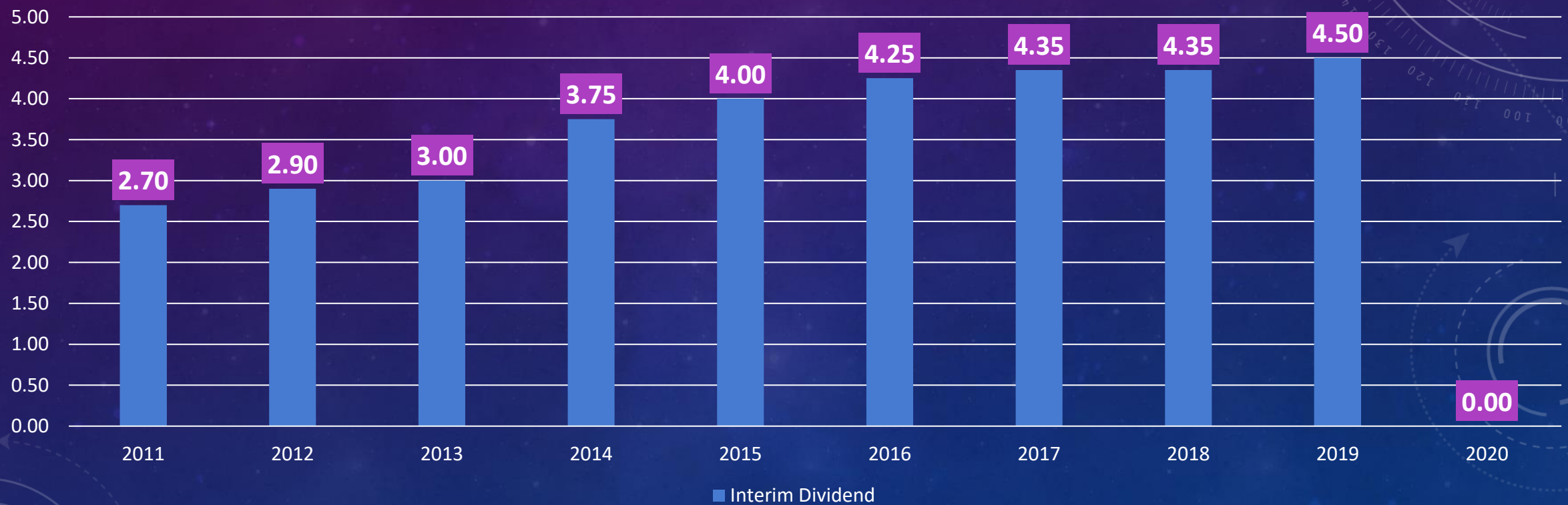
COMFORTDELGRO – OUTPERFORM S\$1.63

- Smaller Singapore fleet, also impacted by COVID-19 relief schemes from Feb, including full rental waiver during CB period
- China taxis rental reduced to virtually rent-free in response to COVID-19 lockdowns
- Taxi impairment of S\$22.8mn in 1H20



COMFORTDELGRO – OUTPERFORM S\$1.63

- First year where it did not declare an interim dividend
- Final dividend to be reviewed at year end



COMFORTDELGRO – OUTPERFORM S\$1.63

- **Investment case**

- Worst is over in 1H20
- Governments will not impose blanket ban but will seek to reopen economy
- Targeted lockdowns

- **Risk**

- Winter season (flu season) in northern hemisphere – 2nd wave
- FX risk from weaker AUD or GBP

AUGUST 2020 CALENDAR

AUGUST

SEPTEMBER

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
30	31 AGT Ex-Div	September 1 Jardine C&C Ex-Div	2	3 KGI Corporate Access - Hyphens	4 Venture Ex-Div	5
6	7 Fu Yu Ex-Div Singpost Ex-Div FCT Ex-Div	8 Hour Glass Ex-Div	9	10 Medtecs Ex-div	11 EC-World Ex-div	12
13	14 Metro Ex-div	15	16 APTT Ex-div	17	18 Riverstone Ex-div	19
20	21	22	23	24	25	26
27	28	29	30			

*PM – After market close, AM – Before market opens

KGI CORPORATE ACCESS

- **September Health Heroes Corporate Access Series**
- **Hyphens Pharmaceutical**
 - Thursday, 3 September, 2-3pm
 - Dermatological and health supplement brands including Ceradan and Ocean Health
 - Zoom meeting with CFO Fang Lee Wei

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