SMALL/MID CAP HIGHLIGHTS

Small Mid-Cap Strategy – Singapore

Position For Recovery Plays Backed By Deep Value

We highlight stocks based on the following criteria: a) laggards backed by solid earnings and healthy balance sheet (Food Empire, Frencken and InnoTek); b) beneficiaries of China's recovery (Jiutian Chemical, China Sunsine and Sunpower); and c) beaten-down stocks with the ability to recover quickly post-COVID-19 (BRC, Kimly and Koufu). We continue to recommend investors to selectively accumulate deep-value names with good track records. Our top picks are BRC Asia, Food Empire, Frencken and InnoTek.

WHAT'S NEW

- **Laggard quality small-mid cap backed by solid earnings – Food Empire, Frencken and InnoTek.** We highlight stocks that have resilient earnings despite being impacted by COVID-19 and are trading at inexpensive valuations. Furthermore, these names are backed by strong balance sheets – net cash position and low net gearing.

Company	Highlights
Food Empire	Food Empire trades at an undemanding valuation of 8.5 2021F PE, a significant discount to peers' average of approximately 20x 2021F PE despite its growing presence in the Vietnam market and leading position in its core markets in Eastern Europe. In spite of the challenges in 2020 including the Ruble depreciation and the lockdown in key markets in 2Q20, the group has reported decent 9M20 core net profit (excluding forex losses) of S$23m. This represents an 11.2% yoy growth on the back of better cost control and higher ASPs which mitigated the decline in revenue (-5.6% yoy). We believe the set of results is a testament of its brand strength and consumer staple nature of its products. We also highlight that the Russian Ruble has strengthened against the US dollar in the past month, gaining 8.5% since 1 Nov 20.
Frencken	Frencken's 3Q20 earnings of S$13.3m marked a beat, taking 9M20 net profit to 83% of our full-year estimate. The business update reflected earlier- and stronger-than expected operating leverage, buoyed mainly by a better sales mix and greater cost control efforts. We expect the semiconductor segment to continue driving growth going forward, driven by the accelerating development of 5G technology.
InnoTek	InnoTek, which has huge exposure to China's automobile market, is a precision metal components manufacturer serving the automobile, TV and office automation industries. It is set to benefit from: a) China's auto sales recovery; and b) COVID-19 social distancing measures which have boosted demand for large screen TVs. We expect EPS to grow by 229% hoh in 2H20 and 19.4% yoy in 2021. InnoTek has a net cash position of S$73m. At current prices, the stock trades at an undemanding valuation of 6.4x 2021F PE, a discount to peers' average mean of 11.0x.

Source: Bloomberg, UOB Kay Hian

- **Leveraging off China's recovery – Jiutian Chemical, China Sunsine and Sunpower**. Recent key domestic macro data from China reaffirms the countries' recovery trajectory from COVID-19, with industrial production already recouping losses since returning to growth territory in Apr 20, bringing 10M20 gains of 1.8% yoy. The country's Purchasing Managers' Index was expansionary for both the manufacturing and non-manufacturing sectors in Nov 20, affirming the sustained recovery in 4Q20. UOB Global Economics & Markets Research expects China's 4Q20 GDP growth to come in at 6.2% yoy, compared with 4.9% yoy in 3Q20. With that, we highlight stocks with high revenue exposure to China, back by strong sets of results and undemanding valuations.

Company	Highlights
Jiutian Chemical	The world's second largest dimethylformamide (DMF) manufacturer is benefitting from an upswing in ASPs of its main products. China's recovery has led to enhanced demand for raw materials used to manufacture consumer end products, including fine chemicals produced by Jiutian Chemical. These factors were apparent in 3Q20 results which beat our expectations due to higher-than-expected ASPs. We expect better demand to drive further earnings growth. The recent retracement in share price (-41% from its recent high of S$0.12) presents a buying opportunity as the stock trades at an attractive valuation of 3.8x 2020F PE and 2.2x 2021F PE. Current DMF ASP of around Rmb8,000/tonne is still way above our expectation of Rmb7,200/tonne for 2021. Also, earnings surprise could come from higher volume of dimethylamine (DMA), which is the feedstock of DMF.

TOP BUY PICKS

Company	Ticker	Share Price (S$)	Target Price (S$)	Upside to TP (%)	2021 PE (x)
BRC Asia	BRC SP	1.44	1.88	30.6	8.8
Food Empire	FEH SP	0.595	0.88	47.9	8.5
Frencken	FRKN SP	1.16	1.42	22.4	10.3
InnoTek	INNOT SP	0.54	0.82	51.9	6.4

Source: UOB Kay Hian

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China Sunsine	On the back of a rise in automobile sales in China as the domestic economy recovers, selling prices of rubber accelerators – the main earnings for China Sunsine – are showing signs of recovery. In 2021, we expect net profit to grow by 46% yoy on the back of China Sunsine's expanded production capacity. Furthermore, higher vehicle sales in China is expected to drive increased demand for tyres, hence leading to a potential 10% rise in the ASP of rubber accelerators from a low base in 2020.
Sunpower	As China's economy recovers, Sunpower's plants have resumed full work with utilisation above pre-COVID-19 levels. This was apparent in the robust set of results in 3Q20. The green investment (GI) segment is on track to post a double-digit yoy growth for 2020 while the manufacturing and services (M&S) orderbook maintained its record-high orderbook of Rmb2.8b as of end-3Q20. Management has earmarked the GI segment as the key driver for the group. We expect: a) full-year contributions from newly-acquired GI plants; b) anticipated additional contributions from Phase 2 of the Shantou Project and the new Xintai Zhengda plant; c) continuous acquisition of new customers following mandatory closures of "small dirty boilers" and/or mandatory relocations into industrial parks; d) organic growth from existing customers and industrial parks served by the group's GI plants; and e) record-high M&S orderbook of Rmb2.8b to help drive earnings for the rest of 2020 and beyond.

Source: Bloomberg, UOB Kay Hian

- **Cyclical recovery – BRC Asia, Kimly and Koufu.** We highlight stocks that are beneficiaries of a normalised environment post-COVID-19 and have the ability to recover quickly. These include names in the construction and F&B services sectors.

Company	Highlights
BRC Asia	Build-to-Order (BTO) projects continue to be favourable for BRC Asia, with recent new Housing Development Board (HDB) project launches in Tengah, Bishan and Toa Payoh being oversubscribed. The number of BTO flats launched in 2020 is slightly higher than in 2019. We opine that the construction industry is still a laggard and new construction contracts awarded will likely recover off the low seen in Aug 20, with Sep 20 contracts awarded amounting to S$840m (+102% mom). Furthermore, gross margins have improved since BRC Asia's acquisition of Lee Metal in 2017. With the gradual normalisation of construction activities and sustained margins, we are optimistic of BRC Asia's recovery and expect earnings to rebound strongly in FY21 at 88% yoy. BRC Asia currently trades at 8.8x FY21F earnings, below its long-term average (excluding outliers).
Kimly	Kimly is the largest coffee shop operator in Singapore with outlets across the heartlands, in close proximity to much of the population. We expect Kimly to benefit from COVID-19, with consumers becoming increasingly price sensitive. Kimly has: a) a high net cash balance of S$43.9m; b) a higher dividend yield vs peers; and c) strong future earnings growth from newly-acquired/refurbished coffee shops. We expect a strong net profit CAGR of 9.3% for FY21-23. At current valuations, Kimly is trading at 12.5x FY21F PE, well below its average 3-year mean PE of 15.0x, and Singapore peers' 2021F PE of 22.5x.
Koufu	Same-store sales declined by 20% yoy in Jul-Oct 20, an improvement from 2Q20's 40% yoy decline. Sales at outlets in the heartlands and full-service restaurants have improved significantly. We expect a gradual recovery for outlets located at tertiary education and downtown area (where sales has been hampered by work-from-home measures) in 2021 as COVID-19 cases come under control in Singapore. As for outlets located at tourist spots, we are more positive in the outlook for the outlets located in Macau compared with Marina Bay Sands, Singapore as travel restrictions in Macau, particularly with China (contributed to 71% of tourist arrivals in 2019) have eased since Jul 20. Apart from gradual resumption of activities, future growth drivers are contributions from Deli Asia (which has resilient earnings), new outlets, and its new Integrated Facility. Key share price catalyst for the stock is the opening of Singapore and Macau borders.

Source: Bloomberg, UOB Kay Hian

STOCK PICKS

Company	Ticker	Rec	Price 14 Dec 20 (S$)	Target Price (S$)	Upside to TP (%)	Last Year End	PE 2019 (x)	PE 2020F (x)	PE 2021F (x)	Yield 2021F (%)	ROE 2021F (%)	Market Cap. (S$m)	Price/ NAV ps (x)
BRC Asia	BRC SP	BUY	1.44	1.88	30.6	9/20	10.6	16.5	8.8	6.3	13.7	336.9	1.3
Food Empire	FEH SP	BUY	0.595	0.88	47.9	12/19	8.9	8.8	8.5	2.4	11.9	319.6	1.1
Frencken	FRKN SP	BUY	1.16	1.42	22.4	12/19	11.6	11.8	10.3	2.9	14.0	494.7	1.6
InnoTek	INNOT SP	BUY	0.54	0.82	51.9	12/19	7.3	7.6	6.4	1.9	10.4	123.6	0.7
ChinaSunsine	CSSC SP	BUY	0.485	0.58	19.6	12/19	6.2	11.3	7.8	2.3	10.5	470.8	0.9
Jiutian Chemical	JIUC SP	BUY	0.071	0.18	153.5	12/19	n.a.	3.8	2.2	0.0	48.0	141.2	1.6
Kimly	KMLY SP	BUY	0.3	0.36	20.0	9/20	17.2	13.8	12.5	4.1	11.5	356.6	3.2
Koufu	KOUFU SP	BUY	0.66	0.73	10.6	12/19	13.2	30.8	14.3	3.2	20.7	366.0	3.8
Sunpower	SPWG SP	BUY	0.74	0.92	24.3	12/19	8.3	7.3	6.0	0.3	18.9	599.9	1.5

Source: Bloomberg, UOB Kay Hian

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