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# EMERGING MARKETS



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# Investing in Singapore Stocks

CHON KIAT TEO, DBS ASSET MANAGEMNT

**CHON KIAT TEO** joined DBS Asset Management Ltd in 1998 as investment analyst covering the technology and telecommunication sectors. Subsequently in 2003, he assumed the role of equity portfolio manager managing absolute return and benchmarked portfolios. Chon Kiat manages the Shenton Asia Pacific Fund since 2003, the Shenton Thrift Fund since 2005 and the Shenton Global Advantage Fund. Shenton Thrift Fund, a Singapore equity fund won the best 5 year performance award by Lipper in 2008. Shenton Global Advantage Fund also won the best 3 year and 5 year performance award by Lipper in 2008. He is also responsible for covering Hong Kong and China. He has 13 years of investment management experience, having started his career with Koeneman Capital Management as a quantitative analyst where he managed the company's proprietary quantitative stock ranking model. Chon Kiat graduated with a double degree, a Bachelor of Business Administration degree and Mathematics Degree as well as a Bachelor Of Science Degree in Computer Science, from Brandon University, Canada. He also holds a Master Of Science Degree in Applied Finance from the National University of Singapore.

**SECTOR – GENERAL INVESTING**

**(ABU500) TWST: Could you introduce us to the Singapore Fund, and tell us about your investment philosophy?**

**Mr. Teo:** I am the portfolio manager for the Singapore Fund. The Fund's focus is to deliver positive returns relative to the Straits Times Index. The Fund primarily invests in listed stocks on the Singapore Foreign Exchange, and to a lesser extent, in companies that are listed in ASEAN markets. The portfolio is growth focused, and we're positioned to capture growth opportunities and prospects in the Singapore economy.

In terms of our overall portfolio strategy, we are overweighted in the cyclical sectors with higher earning growth profile and underweighted in the defensive sectors such as telcos and policy vulnerable property sectors. We also like the industrial sector, as we see value emerging especially in the offshore and marine sectors. We are seeing improvement in its order book, which is yet to be reflected in the share price.

Other cyclical sectors that we like include transportation. This particular sector will benefit from the strong domestic economy.

**Highlights**

*Chon Kiat Teo says that the Singapore Fund is growth-oriented and mostly invests in stocks on the Singapore Foreign Exchange. He is currently overweighted in the cyclical sectors with higher earnings growth profile and underweighted in the defensive sectors and policy vulnerable sectors. He particularly likes transportation stocks and industrials, where he sees value emerging in the offshore and marine areas. He is underweight the banking sector at this time as margins are under pressure amid strong competition from foreign institutions. He thinks that growth in the second half of the year will range between 7% to 9% and then moderate to between 5% to 7%, which is more sustainable in the long term. He believes the macro economic outlook is positive for corporate earnings going forward.*

*Companies include: Genting Singapore; Singapore Airlines; Ezra Holdings.*

**TWST: Tell us about yourself and your experience.**

**Mr. Teo:** I have 13 years of investment management experience, having started my career as a quantitative analyst where I managed the proprietary quantitative stock ranking model. Subsequently in 2003, I assumed the role of equity portfolio manager managing absolute return and benchmarked portfolios. I have been looking at the Singapore market for the last eight years. We have a dual system when it comes to managing portfolios. There is a key manager and secondary manager. I've been the primary manager for the last six months. Before that, I was the secondary manager for the fund.

**TWST: Have you repositioned the Fund or made any changes since you took over?**

**Mr. Teo:** Yes. I increased the weighting on the cyclical sectors as we expect economic growth will remain healthy and the corporate earnings outlook to remain strong. Cyclical sectors include industrial, commodity and transportation. The exposure in the domestic consumption theme was also increased based on strong tourist arrivals and economy sustained growth momentum.  Some companies we've invested in include **Ezra Holdings** (5DN.SIN) and **Genting Singapore** (G13. SIN).

*"Genting Singapore's earning growth momentum will remain strong, which may continue to surprise the market. I think going forward, earning growth for Genting Singapore will continue to be driven by their gaming business. The junket approval will be another strong boost to their VIP business."*

**TWST: What is it about those two names that account to you?**

**Mr. Teo: Genting Singapore's** earning growth momentum will remain strong, which may continue to surprise the market. I think going forward, earning growth for **Genting Singapore** will continue to be driven by their gaming business. The junket approval will be another strong boost to their VIP business. The non-gaming facility, Universal Studios, will also attract more visitors to the gaming facilities as more rides are being featured going forward.

**TWST: Looking ahead to 2011 with the Singapore economy, what's your take on the economy? I saw that the government boosted it's growth forecast to 13% to 15% from 7% to 9%, and real estate prices are up, the dollar is strong, stocks are up and yet there was a wide and aberrant story that HSBC has forecasted that the economy will contract in the third quarter, where do you see things right now?**

**Mr. Teo:** We expect that in the second half of the year and even going into the next year, the economy will remain healthy. In the first half, growth was exceptionally strong, partly from a low base effect compared to last year. I think going into the second half, growth will be moderate, but remain healthy. I think growth in the second half will range between 7% to 9% and thereafter, I think growth will moderate to between 5% to 7%, which is more sustainable in the long term. The macro economic outlook is positive for corporate earnings going forward.

**TWST: What's the balance between Singapore listed stocks and other names at the moment?**

**Mr. Teo:** At the moment, in terms of exposure, the Fund is more than 90% invested in the Singapore stocks. As for ASEAN names, we have some exposure in Thailand, some in Malaysia, but that comprises less than 10% of the portfolio at this point in time.

**TWST: What are the key things that you look for in stocks that are not listed in the Singapore, for that 10%?**

**Mr. Teo:** For stocks that are not listed in Singapore, we like the local domestic consumption theme across the ASEAN region. Some of the stocks that we like will be the beneficiaries of their respective strong domestic consumption given the recovering economy. If one looks at Thailand, barring any political turmoil, economic momentum will continue to be strong. For Malaysia, we like some of the commodity names, which are benefiting from strong soft commodity prices.

**TWST: What are some of the core holdings of the Fund?**

**Mr. Teo:** Some of the core holdings of the Fund include **Singapore Airlines** (C6L.SIN) in the transportation sector. We like this stock partly because it's one of the leading quality airlines in the world, and it will benefit from strong domestic consumption and tourist arrival. In terms of earnings outlook, given the improvement in utilization rates and yield for both the passenger and cargo business, earnings growth momentum will continue to be strong.

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**TWST: There was an S&P report that said that more than 40% of the Fund's holdings is bank stocks, I think, as of the end of July. Is that correct and what's the thinking on the big bet on banks? Obviously, they are a big part of the Singapore story in general right?**

**Mr. Teo:** We're actually not that bullish on the banking sector. We are currently underweight in the banking sector. The weighting of the banking sector in the index is close to 33%. Our weighting in this sector is marginally above 20% currently. We think that margins are under pressure amid strong competition from foreign institutions.

**TWST: You mentioned transportation, what sectors are you overweight on compared to the index?**

**Mr. Teo:** Relative to the index, we are overweighted in the industrial, transportation and commodity sectors. We also like the domestic consumption theme. Among the industrials, we like the offshore and marine sector that has benefited from strong recovery of order book. We also have some exposure in S-Chips. Chinese companies listed in Singapore are referred to as S-Chips. We are bullish on the infrastructure development in China especially in the area of railway infrastructure.

*"Ezra Holdings is in the maritime business providing integrated offshore and marine services. The company is well positioned to benefit from the positive dynamic in the offshore and marine industry. Valuation is not excessive given its improving business prospect. "*

**TWST: Are you pretty bullish on China going forward?**

**Mr. Teo:** In China, infrastructure development to improve connectivity and mobility is one of the most fundamental and important competitive advantage of economic activities. The government has budgeted, as part of a long-term structure improvement in China to further enhance its railway infrastructure network. Take for example, the operating length of the current mass transit railway network (MTR) in the 11 cities of China is 1056km and China is planning to build another 1700km MTR lines between 2010 and 2015.

TWST: What's the sell discipline for the fund? Do you set price targets and take profits or do you have a different way to make decisions on selling?

**Mr. Teo:** We are disciplined on our sell decision. Typically, valuation is one important matrix that we consider when it comes to profit taking. When we talk about the valuation of any company, we will compare the company valuation relative to its peer, future prospect and historical level.

**TWST: Investing in the emerging economies of Asia, how do you attempt to control risk among individual names and the portfolio as a whole?**

**Mr. Teo:** In terms of our risk management, we do have a stock level risk control. We cap stock level exposure to 5% above the benchmark weighting. For investment outside Singapore, we cap it at 10% of the portfolio.

**TWST: The fund has a very strong long-term record. What do think gives The Singapore Fund its edge when it comes to investing compared to other Singapore funds or even emerging market portfolios?**

**Mr. Teo:** We have a disciplined approach to investing, a strong and experience research team, and we are very close to the Singapore market. The fund's strong emphasis on seeking alpha has been behind its successful track record. The home ground advantage is that we are based in Singapore. The mid capitalization space is one area where we are able to add value.

**TWST: Do you feel like you were able to take advantage of the really strong economy in the first half of this year and if so, how did you do that?**

**Mr. Teo:** The Singapore market had been choppy during the first half of this year amid tightening measures in China and European debt crisis. Investors' risk appetite had not been great on risky assets. Despite the strong economy in the first half of 2010, the Singapore equity market registered a negative return of 1.63% in USD terms. The fund continued to outperform given our underweight on the banking and property sectors. Banking and property sectors underperformed the market during this period. Stock selection in the healthcare, transportation and industrial sector added to performance. The Singapore market started to recover in the third quarter. Our overweight in the cyclical and domestic consumption sectors contributed to performance.

**TWST: What are your some of your favorite stock stories now outside of the real core holdings?**

**Mr. Teo:** We like the domestic consumption theme and the offshore and marine sector that was talked about earlier on.

**TWST: What are some of the names?**

**Mr. Teo: Ezra Holdings** is in the maritime business providing integrated offshore and marine services. The company is well positioned to benefit from the positive dynamic in the offshore and marine industry. Valuation is not excessive given its improving business prospect.

*"Singapore offers business stability with its strong regulatory regime and consistent corporate governance will continue to attract capital. The government has also improved the capacity of the Singapore economy by fine tuning its immigration policies."*

**TWST: What are your hopes for the fund, what are your goals, and your outlook for the fund as we look ahead to next year?**

**Mr. Teo:** We will strive to deliver superior performance for the fund. In terms of strategy, we continue to position for growth as we believe economy outlook will remain healthy going into next year. We are overweight in the cyclical sectors and underweight the defensive sectors. Those sectors that we like will continue to exhibit a higher earnings growth profile relative to the market.

**TWST: What are the two or three best reasons for a long-term investor to look closely at The Singapore Fund?**

**Mr. Teo:** The ability to capture the growth prospect of Singapore. We expect the growth outlook will continue to be strong in the longer term. Singapore offers business stability with its strong regulatory regime and consistent corporate governance will continue to attract capital. The government has also improved the capacity of the Singapore economy by fine tuning its immigration policies. Secondly it is not just about Singapore but also the growth prospect in the region. Local firms have also expanded business across the region leveraging on strong governmental ties with neighboring ASEAN nations and rapidly growing India and China.

**TWST: Anything else investors should know about the fund?**

**Mr. Teo:** The fund strive to deliver consistent and superior performance for investors.

**TWST: Thank you. (MJW)**

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