

Hunting for Value in Singapore

This article is authored by MOI Global instructor William Thomson, managing partner of Massif Capital, a value-oriented investor partnership focused on global opportunities in the small- and mid-cap space, with special attention given to industrial and commodity-related businesses. Will is an instructor at [Best Ideas 2018](#), the fully online conference featuring more than one hundred expert instructors from the MOI Global membership community.

Singapore has a long history of serving the world as a vital financial center, a role the city has played regionally since before Sir Stamford Raffles established it as a critical trading post of the British Empire in 1819. Given the city's strategic geographical location, at the mouth of the southern end of Straits of Malacca, Singapore's rise in the global ranks of significant trading and financial centers is unsurprising. The emergence of a financial services sector is often predicated upon the existence of thriving trade flows, with financial services associated with trade and shipping activities, such as currency exchange, shipping insurance, and maritime finance giving rise to other related financial services. This has most certainly been the case for Singapore.

In more recent history, geographic location played another role in Singapore's financial development, as the city's time zone allowed it to fill in a gap in global trading hours. This led to the establishment of an Asian Dollar Market in 1968, filling a hole in global trading hours between the close of American markets and the opening of European markets. At the same time as the centrality of Singapore's location to the broader Asian markets has played an essential role in developing the city and its financial services industry, it also seems to have created a situation where its equity markets are easily overlooked in favor of the small-city states larger neighbors.

Value investors would be well served not to overlook this underserved market as opportunities abound.

The Quantitative Backdrop

In a world of expensive equity markets, Singapore's stands out as cheap. Based on data provided by Datastream the Singapore equity markets have traded at an average P/E of 16.6 since 1988ⁱ. By comparison, the SPDR Straits Time Index ETF (ES3) has a current P/E of 11.3. Star Capital analyst Norbert Keimling publishes up to date international CAPE data that corroborates this conclusionⁱⁱ. As of September 30th, 2017, Singapore had a CAPE of 12.9, this compares favorably to not only Developed Markets, which have a CAPE of 24.3, but also Emerging Markets, 16.5, and the Emerging Asia-Pacific, 17.9.

According to the MSCI Singapore Index, which covers 85% of the free float-adjusted market capitalization of the Singapore equity universe, Singapore ROE has declined from a peak of 17% in 2008 to a current level of around 8.5%. Furthermore, the MSCI Singapore is currently trading at a P/B of 1.13x, which is close to 2008-09 lows of 1.06x. From here it would seem that the downside is limited as the market is already trading at a discount to P/B of 1.23x in 2001 (global recession). Only during the Asian Financial Crisis of 1997/98 did the MSCI Singapore P/B move to lower levels (0.77x).

The Qualitative Backdrop

Two qualitative factors make Singapore an even more interesting equity market. The first is the

significant role that family businesses play and the second is the ongoing restructuring of corporate Singapore.

Among SGX listed firms, roughly 60% can be described as family firms. These businesses have historically outperformed those of non-family owned companies on the SGX with a return on assets of 3.7% vs. 0.9%. Roughly a third of these firms are still run by the first generation of the family, and 54% are run by the second generation, making them relatively young in comparison to publicly listed family-run firms in the rest of the world. The businesses are also tightly controlled with the founding family typically owning 38.3% of sharesⁱⁱⁱ.

Family businesses tend to take a longer-term view than non-family firms when it comes to business strategy, prioritizing stability over quarterly returns, they tend to be patient capital^{iv}. In Singapore, that tendency is even more pronounced, with 80% of respondents to a recent PwC survey focused on either consolidating their businesses or steady growth over the next five years, and just 15% saying they plan to grow aggressively^v. Throughout the rest of Asia 74% of Family Business respondents were focused on steady growth or consolidation while 24% were focused on aggressive growth. The key take away: Singapore family-run businesses strive to be, and think of themselves as, patient capital^{vi}.

Although value in and of itself is often worth buying, a catalyst for realization makes it more appealing. According to a recent study by Credit Suisse, 79% of the MSCI Singapore is currently involved in some form of corporate action whether it be a strategic review, asset divestment, consolidation of holdings or an improvement of capital structure. Slow economic growth, the rise of competitive threats in Singapore's near abroad and two consecutive years of EPS declines have prompted many businesses to reexamine priorities.

Forecasted growth in corporate activity is also driven by the more aggressive approach to portfolio management that Temasek, the Singaporean state investment arm, is taking. As state expenditures have grown over the past decade so too has the role of investment returns in plugging public spending gaps. As one of the largest investors in many blue-chip Singapore companies, the demand for better returns is driving strategic reviews at government-linked firms.vii Regardless of the cause, whether it be prodding by Temasek at blue chips or disappointing performance in recent years at family controlled firms, the reviews underway stand a good chance of improving near-term ROE for many Singapore investments.

The Big Risk

A cheap market is rarely cheap without cause though, and the Singapore market is no different. Singapore is not only one of the world's most trade-dependent economies, with exports of value-added goods to the world representing 56% of GDP, but it is also dependent on global trade to meet many of the city's basic needs (food, fuel and even water). Should the current backlash against globalization continue the retreat of global trade represents a very real existentially threat to Singapore. Despite the cheapness of the country's equity it is an economy comprised of businesses dependent on the network effect of globalized supply chains.

Regardless of the near terms threats from a potentially weakened global trading system, Singapore equity markets remain a fertile ground for opportunistic value investors. Massif Capital looks forward to building on some of the themes discussed above during our presentation at MOI Global's Best Ideas 2018 conference.

ⁱ The Singapore DS Market Price Index is a synthetic stock index devised by data provider Datastream that is

similar to the STI, but which has historical data that goes back further than what is available for the STI.

ⁱⁱ Star Capital Research: <http://www.starcapital.de/research-en>

ⁱⁱⁱ 65% of Singapore listed companies are controlled by the top five shareholders.

^{iv} Patient Capital is focused on achieving future economic advantage through continues and sustainable progress as opposed to most capital which has an impatient focus on near term or immediate results.

^v Patient Capital prioritizes the accumulation of means over ends and the deployment of capital at strategically advantageous times. Steady growth, although slower then aggressive growth, allows for the accumulation of means to act opportunistically in the future which allows creation of great value over time.

^{vi} Survey data available at: <https://www.pwc.com/gx/en/services/family-business.htm>