SPECIAL FUNDS FOCUS

Nikko AM rides on 'New Singapore' stocks; expects corporate earnings recovery in 2H

| BY ZAVIER ONG |


SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Tang (left, with Lai): We believe a lot of the best opportunities right now lie in some of the mid-caps

Mention disruptive companies, and the likes of Airbnb and Uber spring to mind. But for Lai Yeu Huan and Kenneth Tang, senior portfolio managers at Nikko Asset Management, disruption also comes in a distinctly local flavour.

"We don't look at disruption for the sake of investing in disruption. We don't have the likes of Uber or the blockchain firms in our portfolio. In fact, we are very Singapore Inc-focused. And while others are looking at fancy new stuff such as nanotechnology and blockchain, our approach is slightly different," says Tang. "We want to know where Singapore's strategic pivot is... We find that that's usually a good way to start looking for the next winner."

While the "Old Singapore" was built on the financial and property sectors, Lai says the likely beneficiaries in the "New Singapore" could be in the fields of logistics, healthcare, food, data centres and technology. "These are industries that we think will be representative of the new future of Singapore," he says.

As an example, Lai points to ground handler and catering services provider **SATS**. The company has increasingly embraced automation in its processes in response to a labour crunch in Singapore, he says. It has also expanded its overseas presence over the years.

Moreover, SATS has an opportunity to address growing concerns about food quality. "I think food security is one of the key issues in our world today, and to be able to produce safe food reliably and efficiently is a very core skill," says Lai.

"When people talk about the New Singapore, they think it's all about nanotechnology and blockchain. I think that's not giving credit to some of the New Singapore ideas that we are looking at. Some of these companies may appear to be traditional companies, but if you look deeper at the way they are changing, in terms of the way they do business or the way they think about their business model, it really does represent the New Singapore," he adds.

Another company that Lai likes is tech equipment manufacturing firm **Venture Corp**. "It is one of the few contract manufacturing firms that have adapted to the new economy. They used to serve traditional sectors such as PC and peripherals, but they have innovated and evolved to stay relevant in today's competitive landscape. Last year, the bulk of Venture's revenue came from what we think are the businesses of the future, in fields such as life sciences, test and measurement, and 3D printing," says Lai.

Tang says Venture's success is a reflection of where Singapore's competitive advantage lies. "Singapore has never been good at R&D. We tried to recreate Silicon Valley, but sadly, that hasn't really turned out to be too good. But Singapore is good at remaking and retooling what others have done before," he notes. "The field of advanced manufacturing, where Venture is gradually moving into, is an area where we think Singapore has an edge to succeed."

Being truly active

Lai and Tang co-manage Nikko AM's Singapore equity strategy and co-run the fund house's award-winning Nikko AM Shenton Thrift Fund and the Singapore Dividend Equity Fund. The flagship Shenton Thrift Fund was named the Best Singapore Equity Fund at the 2017 Morningstar Singapore Fund Awards. It was also named the Best Singapore Equity Fund over three years at the 2017 Thomson Reuters Lipper Fund Awards, while the Singapore Dividend Equity Fund was the Best Singapore Equity Fund over five years.

The Singapore Dividend Equity Fund's objective is to achieve medium- and long-term capital appreciation by investing primarily in locally listed equities that offer attractive and sustainable dividend payments. The Shenton Thrift Fund's objective is similar, except for the dividend focus. Both funds may invest in stocks listed outside Singapore, although the Shenton Thrift Fund has an investment limit of 30% of assets for non-Singapore stocks.

Both have outperformed the Straits Times Index over the last three and five years. The Shenton Thrift Fund has returned 4.4% and 7.4% over a three- and five-year period, respectively. The Singapore Dividend Equity Fund has returned 3.7% and 7.9% over the same periods. In contrast, the STI's return was -0.3% over a three-year period. Over a five-year period, the index returned 2.5%. Only a handful of Singapore equity funds, including the two Nikko funds, have managed to beat the STI over the three- and five-year periods, says Tang.

What is the secret sauce behind the funds' success? "We have to be truly active to succeed," Tang says. "That means deviating from the benchmark in a meaningful way to add value to our clients. Because we employ a bottom-up, fundamentals-focused strategy, you will see a very clear deviation in our funds that represent these [New Singapore] sectors."

As at June 30, the Singapore Dividend Equity Fund's 10 largest holdings included a 12% stake in **DBS Group Holdings**, an 11% stake in **Oversea-Chinese Banking Corp** and an 8.1% stake in **United Overseas Bank**. The fund was underweight in financials, relative to its benchmark, with 33.1% of its holdings in this sector. It had a 94.5% exposure to Singapore-listed companies and a 3.2% exposure to Hong Kong-listed companies.

The Shenton Thrift Fund, meanwhile, had 10.6% of its assets in DBS, 6.3% in OCBC and 6% in **Hongkong Land Holdings**. The fund's largest sector allocation is in real estate, at 21.5%. That was significantly more than the STI's 18.6% weightage in real estate as at end-June. Singapore-listed companies make up 85.2% of the fund's assets; Hong Kong, 5.4% and Indonesia, 3.9%. It also holds smaller-cap companies such as **Health Management International**. HMI owns hospitals and healthcare facilities.

By comparison, financials had the largest sector weightage of 38.7% in the STI as at end-June. Its largest constituents were DBS (13.3%), OCBC (12.7%) and UOB (10.5%).

Noting that the benchmark STI comprises mainly big-cap stocks, Tang says the fund's philosophy is to look beyond a stock's market capitalisation. "We believe a lot of the best opportunities right now lie in some of the mid-caps. There are also a lot more emerging mid-caps that could be very interesting and it's important that we capture these opportunities without being too constrained by size or liquidity factors. I think that is where our edge would come from."

Expecting growth

Tang expects that this year will be one of expansion for corporate Singapore. "We are already seeing some evidence in the Singapore market that we haven't seen for the last five years. Corporate earnings upgrades are starting to come true, largely driven by a global industrial recovery, the export recovery in Singapore and a bottoming-out in the domestic sector. That's a key inflexion point for earnings."

Tang expects price-to-earnings multiples to improve too. "As earnings start to improve, we'll see an improvement in return on equity, which will then lead to an expansion in multiples. We think that will be a key driver for the market," he says.

Fiscal policy is likely to remain accommodative, given that some parts of the economy, particularly the offshore and marine industry, remain vulnerable. Additional financing schemes announced for the sector are reminiscent of the fiscal and monetary measures introduced in the early 2000s to help beleaguered small and medium-sized enterprises, Tang says.

"We think there is a confluence of positives coming through for Singapore and that's why we think Singapore will be fairly attractive for investors today," says Tang. "When the market starts to look at the recovery in this growth, alpha becomes important again. In this environment where we are seeing a recovery in earnings, we need to be very stock-selective and position in the right sectors in order to benefit from these opportunities." E

Top 10 holdings of the Nikko AM Shenton Thrift Fund as at June 30

COMPANY	WEIGHTAGE (%)
DBS Group Holdings	10.6
Oversea-Chinese Banking Corp	6.3
Hongkong Land Holdings	6.0
Keppel Corp	5.3
Wilmar International	4.6
Singapore Telecommunications	3.9
Health Management International	3.6
Venture Corp	3.3
Jardine Cycle & Carriage	3.2
CapitaLand	3.2

NIKKO ASSET MANAGEMENT

Top 10 holdings of the Singapore Dividend Equity Fund as at June 30

COMPANY	WEIGHTAGE (%)
DBS Group Holdings	12.0
Oversea-Chinese Banking Corp	11.0
United Overseas Bank	8.1
Singapore Telecommunications	7.3
Hongkong Land Holdings	6.0
Keppel Corp	4.9
Genting Singapore	2.8
Jardine Matheson Holdings	2.8
Venture Corp	2.7
Thai Beverage	2.5

NIKKO ASSET MANAGEMENT

Top 10 constituents of the Straits Times Index as at June 30

COMPANY	WEIGHTAGE (%)
DBS Group Holdings	13.3
Oversea-Chinese Banking Corp	12.7
United Overseas Bank	10.5
Singapore Telecommunications	10.4
Jardine Matheson Holdings	6.5
Hongkong Land Holdings	4.3
Keppel Corp	3.2
Thai Beverage	3.2
CapitaLand	3.2
Global Logistic Properties	3.0

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