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Where others see bad news, analyst Terence Chua looks for opportunities

Rachael Boon

Mr Chua reads newspapers avidly to keep abreast of what's happening around the world. Gathering knowledge this way enables him to join the dots and spot investment opportunities. ST PHOTO: DON CHI

Waking up at the crack of dawn to devour the day's news is a must for this young investor.

"Sometimes I wake up at 5am. I read a lot in the morning, such as the local and business newspapers. They are not always the best source but it helps you understand what's happening around the world.

"I don't enjoy reading brokers' reports. Instead, I read the newspapers, and spot issues where opportunities could potentially be," Mr Terence Chua, 28, says.

Mr Chua, who is an equity investment analyst at an institutional fund investment house, believes the way to get to the heart of the financial markets and investing is through reading, and there's no short cut.

He also follows specific authors or writers from whom he gleans insights – such as Mr James Kynge, the Financial Times' (FT) emerging markets editor. "He has unique insight into the emerging markets so I get alerts whenever he writes something. I also follow James Mackintosh, who's now at the Wall Street Journal and used to be at FT. Focusing on key authors cuts short the material I have to read."

Gathering knowledge in this way has helped Mr Chua connect the dots and identify investing opportunities in certain sectors, through themes such as geopolitical issues.

Take, for example, tensions in the Middle East or over the South China Sea, he says. These issues could affect countries and their need to beef up defence, which has a trickle-down effect on firms in and surrounding the defence sector.

"For instance, United States weapons manufacturer Raytheon also does cyber security, which I like as cyber threats are growing. It's still a small part of the business but it's growing, and is a simple business model – growing on new business or recurring maintenance.

"I read widely to stay abreast of world events, and make adjustments to my portfolio, positioning it for the future."

Q *Moneywise, what were your growing-up years like?*

A Money was hard to come by, and I had to save very hard to buy the things I wanted. My younger brother, a law student at Singapore Management University (SMU), and I did not have the privilege of getting toys we wanted without saving up for them.

Q *How did you get interested in investing?*

A It has been cultivated since I was a child. I've always had the desire to invest in things like old currency notes and stamps because my mother told me that these will appreciate in value the longer I kept them.

I took an even greater interest in investing while reading economics for the A levels, as the global financial crisis in 2008 happened.

I started in 2009, just after the A levels, when there was news like oil prices spiking to US$140, and I was captivated.

Q *Describe your investing strategy.*

A The key mandate when I build my portfolio is income growth. This means selecting companies with the ability to grow earnings and dividends in the long run, different from choosing firms with stable and stagnant dividends, like telcos or utilities firms.

The second mandate is capital protection. I seek firms with a sound business model at reasonable valuations, protecting my downside from the investment.

The thing I'm least concerned about is capital appreciation. If you buy a sound firm with quality cash flows at reasonable valuations, capital appreciation will take care of itself. I know friends who pursue only capital appreciation, nothing wrong with that.

I invest in anything that makes money for me – equities, bonds, exchange-traded funds (ETFs), mutual funds and alternative investments. ETFs are when I want low-cost exposure to certain markets but am unsure of the quality of individual stocks.

I haven't found an ideal strategy, and regularly review my portfolio. For instance, I used to not put more than 20 per cent in one stock a few years ago. Now I limit that to not more than 10 per cent, no matter how bullish I am.

Don't limit your portfolio exposure to a certain asset class. There are opportunities everywhere as long as you look hard enough.

This is why I even invest on peer-to-peer (P2P) lending platforms, providing loans to small and medium-sized enterprises. The risk is obviously higher, but compensated by the returns. I do my own due diligence on the firms I invest in on those platforms, and the investments have had mid-teen returns to date.

When I invest in companies, I place a strong emphasis on their ability to generate free cash flow, not their ability to make revenue.

It's important as this is the cash that the company makes from its operations after accounting for capital expenditure spending and working capital requirements. The cash can then be paid out as dividends to shareholders.

Most importantly, they should have the potential to increase dividend payouts over time. More than 85 per cent of my equities are in firms that pay dividends.

After my first year of investing, I gave up chasing capital appreciation, where there's a variability.

There's more work involved, compared with seeking instruments that just grow earnings and dividends over time, such as real estate investment trusts because of an in-built annual rental escalation clause.

Q *What's in your portfolio?*

A I allocate the bulk of my wealth – it's about $50,000 to $70,000 – about 55 per cent to equities, with more than half of this in US equities, a third in Hong Kong equities and the rest in Singapore equities.

Companies with a track record of generating strong free cash flow and growing dividends will always find a place in my portfolio – such as Church and Dwight, Becton Dickinson and Co, and Raytheon which hold significant weight in my portfolio.

I allocate about 20 per cent to fixed-income instruments, all in high-yield debt from emerging markets, which are junk bonds.

I also hold about a small portion in ETFs. I do this when I do not have exposure to the country's equities but want equity exposure to the country. I am currently overweight on Asean with exposure to Indonesia, Malaysia and the Philippines.

The rest are in alternative investments like my P2P investments, which I took from MoolahSense, that tied up with DBS Bank, which I thought gave it some legitimacy.

The loans are typically for 12- to 18-month periods, an acceptable duration for my risk appetite for the credit risk I take on.

If I buy an Aspial bond today, which I have, I can sell it in a secondary market, but with MoolahSense, it's locked in for the duration. If the firm defaults, I lose my investment.

I started P2P investing in June, and have put, for instance, $1,000 in a firm called iFusion. Every month, I am paid interest of 18 per cent. It was raising cash to meet unfulfilled orders, and I like deals like that.

I also hold cash to take advantage of any opportunities that may come by.

I get about $100 to $120 on average each month from my investments, and it was only this year that I reached this target. It takes time and hard work before you see the results you want.

Q *What does money mean to you?*

A Money buys me financial freedom, which is being free of debt and having the freedom to pursue whatever I want to do.

I never touch my principal investments and spend only the interest. I save almost 60 per cent of my salary.

Travelling and reading are my two greatest weaknesses, and I hope to pursue both when I am no longer caught up in the rat race.

Q *What's the most extravagant thing you have done?*

A Travelling around Europe during an SMU exchange programme, which cost about $8,000 to $9,000. Spending the amount was painful.

Q *What are your immediate investment plans?*

A I am currently spending time on a few out-of-favour sectors in the China and Hong Kong markets, with more attention spent on the energy sector.

I am also spending my time looking at some of the small and mid-cap names in Singapore, because there's home ground advantage and no currency risk as I'm here, so I'm trying to increase the exposure a little bit.

One that I've invested in is estate maintenance firm ISOTeam, that listed three years ago on the Catalist board. In Singapore, there's a rule that building facades require maintenance work every five years. It has such a simple business model, bids for government contracts and holds a market share of about 30 per cent.

In the medium term, I hope to increase my monthly passive income to $500 a month.

Q *How are you planning for retirement?*

A It's about building a core portfolio of holdings in high-quality companies that pay dividends that compound over time.

Over the years, I have managed to build the recurring income I get from dividends and interests, and I'm looking to increase the amount over time.

Q *Home is now...*

A I live with my family in a four-room Housing Board flat in the central area of Singapore.

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Worst and best bets

Q *What has been your biggest investing mistake?*

A Getting caught up by hype, leveraging and ignoring valuations. In September 2014, when Alibaba listed on the New York Stock Exchange, I found myself caught up in the hype of investing in the largest listing in the history of the NYSE.

On the first day of the listing, I bought and made money on the sale of the shares. This spurred me on to buy more of the shares without regard to their valuations as they continued to climb. I also geared up to boost my returns.

I kept buying and selling, but buying the stock at a higher price, as I thought it would never drop. But from the peak of US$120, it went down to about US$58. I'd use leverage and there's a cost for using it, so I had to cut my losses.

The correction of the shares by nearly 50 per cent last year meant I lost more than 70 per cent of my investment in the company – about $5,500.

This taught me to never get caught up in the hype of buying a stock when it's too hot. I also learnt the importance of never leveraging for returns as this can be a double-edged sword. I'll also never short stocks.

Q *What has been your best investment move?*

A One of the core holdings in my portfolio is Raytheon, a major defence firm, with core manufacturing concentrations in weapons and military.

I had accumulated stocks of the company about three years ago. Increasing geopolitical tensions in the Middle East and South China Sea led me to think about how to position my portfolio for what seemed to be inevitable and long drawn-out. I bought defence stocks to hedge the risks in such an environment.

The sector was trading at relatively low valuations, as the US was slashing its defence expenditure, owing to enormous fiscal debt then.

I managed to accumulate the stock at about 12 to 13 times the price-earnings ratio. It has rerated to about 18 to 21 times today. Dividends have also increased every year since I bought it. I'm up more than 50 per cent in terms of capital appreciation alone. I continue to hold it and accumulate the stock on weaknesses.

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KEY INVESTMENT CRITERION

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MR TERENCE CHUA, on what he looks for before investing in a company.