

Making the right picks

SGX-NUS competition challenges students to pitch stock recommendations in fast-paced, real-world simulation of financial world



Navin Sregantan

The importance of generating an interest in investing sparked a big turnout for the SGX-NUS Stock Pitch Competition.

Around 400 students were keen to put their skills to the test by pitching stock recommendations

to a panel of judges that included academics, equity research analysts and finance professionals.

The competition, which was held in March, is in its sixth year and proving increasingly popular.

Eight pre-tertiary and tertiary institutions took part this year, up from seven last year. They were broken up into 117 teams, compared with 110 last year.

The participants were from National University of Singapore (NUS), Nanyang Technological University (NTU), NUS High School, Anglo-Chinese School (Independent), Singapore Management University

(SMU), Singapore University of Technology and Design, Yale-NUS College and York University.

The teams were given five days to submit a report on a recommendation on a single stock. These teams were then whittled down to eight finalists, who were given 48 hours to prepare a final presentation.

The process was meant to simulate the fast-paced, high-intensity, real-world environment that finance professionals like investment analysts and asset managers face every day.

The teams were judged on factors such as the depth and rigour of

analysis, presentation skills and responses at the question-and-answer session.

SMU's winning team made a pitch for Singapore Post while second-placed NUS picked ComfortDelGro.

Third was a team from NTU, who chose small/mid-cap medical group Health Management International.

The SMU team won \$1,500, the NUS team collected \$700, and NTU team won \$300.

Singapore Exchange's senior vice-president and head of research and products, Mr Chan Kum Kong, said:

"The (event) provides the students with the experience of pitching stocks in a competitive environment and learning key investing concepts and techniques from industry professionals.

"We look forward to reaching out to a wider group of students to support their aspirations to become research professionals. Students can sign up for research training programmes at the SGX Academy."

The Sunday Times talks to the leaders of the three top teams about their successful strategies.

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SMU undergraduate Chng Jia Zhi advises young investors to be humble, accept the fact that they may be wrong, focus on developing their investment process and speak to industry veterans. PHOTO COURTESY OF CHNG JIA ZHI

Read books on investing to gain new perspectives

Singapore Management University undergraduate Chng Jia Zhi was bitten by the investing bug when he was studying at Ngee Ann Polytechnic in 2011.

"I wanted to apply the finance concepts I had learnt in class to build up my savings but I quickly developed a passion for investing. It provides endless opportunities for learning," he said.

Mr Chng, 26, a final-year undergraduate majoring in finance, and his teammates Wong Jia An, 24, Joshua Ng, 27, and Cher Jia Yan, 23, won the SGX-NUS Stock Pitch Competition.

Q How did your team arrive at the "sell" call for Singapore Post?

A We decided to look for a company where we could build a credible thesis that was different from what most of the market held.

Second, we needed enough information to build on that point of view. Singapore Post (SingPost) met our criteria.

We found that the market may be overestimating SingPost's ability to benefit from the e-commerce trend in the region and we do not see much growth potential for it in the near term. We see the disposal of its e-commerce operations in the United States, clarity over Alibaba's strategy in South-east Asia and margin compression as potential catalysts over the next 12 months.

Our "sell" call on SingPost with a target price of 76 cents was largely based on valuation.

We believe that investors are paying too much for a company that has repeatedly posted lacklustre results.

Q What valuation techniques did your team use?

A We adopted a blended valuation approach by using three valuation methodologies. First, we used the discounted cash flow model to project SingPost's future free cash-flows and discounted them back to the present to estimate its share price.

Second, we used the relative valuation method by looking at the multiples of comparable firms to estimate how much investors should be paying for SingPost shares.

Lastly, we used the sum-of-the-parts valuation method to estimate SingPost's enterprise value, by taking into account its stakes in other companies.

Q What did your team learn?

A We learnt to gather information from multiple sources to present differentiated and contrarian views. Through the competition, we were reminded of the importance of presenting our views in a clear and concise manner, so that key points can be brought across more effectively.

We also learnt to balance compet-

SAFETY MARGIN

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MR CHNG JIA ZHI on his personal investment strategy.

ing priorities as we had to submit the pitch deliverables under a tight deadline while managing our school projects and assignments.

Q Could you describe your personal investment strategy?

A As a long-term investor, I try to look for high-quality companies with sustainable competitive advantages that can compound through market cycles.

Some of the factors that I would take note of are attractive unit economics, strong cash-flow-generating capabilities, capital allocation track record, attractive reinvestment opportunities and significant pricing power.

That said, markets are fairly efficient, so these high-quality companies tend to be fairly priced. I will usually wait for shares to decline on short-term pessimism before investing, so that I can get a comfortable margin of safety.

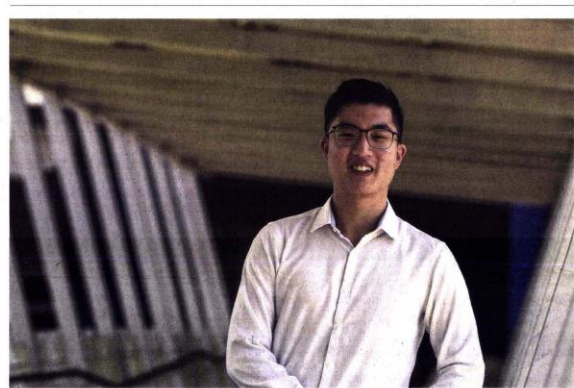
Q What advice would you give to young investors?

A Apart from reading annual reports and industry reports, reading books can also help you gain new perspectives. Books on investing by authors such as Benjamin Graham, Howard Marks and Philip Fisher serve as a good starting point.

Speak to industry veterans who have been investing for a long time.

Be humble and accept the fact that you may be wrong.

Focus on developing your investment process, which is something that you can have control over, unlike market outcomes which are outside of your control.



Mr Sean Jou and his National University of Singapore team were runners-up in the SGX-NUS Stock Pitch Competition. He says his parents gave him the freedom and ability to invest in stocks on his own. ST PHOTO: ALPHONSUS CHERN

Can't talk price without considering value

Call it a mixture of chance and curiosity but the seeds for investing were sown in National University of Singapore freshman Sean Jou when he was just 13, after he enquired about a brokerage report his father was reading.

"I remember looking at the screen and not understanding a single thing," says Mr Jou, who recalls that he was intrigued.

He says: "My parents have given me the freedom and ability to invest in stocks on my own, and the real-world experience afforded to me by them has been invaluable in facilitating my growth and development."

Mr Jou, 22, and fellow freshmen Marcus Tan and Bryan Zhou, both 21, and second-year student Ong Jingheng, 22, were runners-up in the SGX-NUS Stock Pitch Competition.

Q How did your team arrive at the buy or sell call for ComfortDelGro?

A Marcus believed that ComfortDelGro was a strong buy and pitched it to us. Our team decided to delve deeper and our research supported his original buy call.

First, we felt that strong population growth and large infrastructure developments in key catchment areas would act as strong tailwinds for MRT ridership on lines controlled by ComfortDelGro.

We also believed that the market had overlooked concerns regarding competition from private-hire cars, and that it had failed to price in that the segment was likely to have already bottomed out.

Moreover, we thought that aggressive acquisitions in Australia would cement ComfortDelGro's market leadership in the region

and be accretive to earnings through the realisation of positive cost synergies.

Q What valuation techniques did your team use?

A Our primary valuation technique was the discounted cash flow with an enterprise value-to-earnings before interest and taxes ratio exit multiple method, which yielded our target price of \$3.02.

We ran bull, bear and base cases to account for potential variability in our operating assumptions.

Our team also used a number of secondary valuation techniques as further validation, including discounted cash flow with perpetuity growth method and yield spread analysis, among others.

We found that our valuation price was further validated due to the proximity of prices derived across those techniques, which made us confident with our call.

Q What did you learn as a team leader and what did your team learn?

A Diversity of thought is an invaluable asset in any group endeavour. In addition, mutual respect among team members is important for diversity to shine through and elevate the quality of analysis.

It is absolutely critical to encourage intellectual discussion. Deep and constructive discussions can materialise when there is a team culture of feedback and questioning, because it motivates all members to either vigorously defend their positions or give it up in the face of better ones. Our team learnt that patience and openness are crucial to success.

Q Could you describe your personal investment strategy?

A I believe in the merits of fundamental analysis in identifying profitable investment opportunities, and use it extensively in evaluating potential investments.

I start with analysing a company's annual report and also found it useful to refer to sell-side equity research reports to pick up on points that I would have otherwise missed in my own analysis. I also refer to more macroeconomic data to see how it might affect the company I am analysing.

If its fundamentals are sound, and if its valuation is compelling, I would buy its stock. Once the price rises enough to value it closer to what I believe is fair, I would sell it and deploy the cash into the next undervalued stock I can find.

Q What advice would you give to other young investors?

A Love the investment process because you start to ask questions and learn not out of necessity, but because you want to understand the game and eventually master it.

You cannot talk about price without considering value. In evaluating a stock, do not be enamoured of its low price or good growth prospects in isolation. Always consider them together so that you can identify stocks with truly favourable risk-reward profiles.

If you have conducted your research properly, have the conviction to execute the trade, the confidence to ride through the volatility and the humility to recognise when the facts say you are wrong.

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Mr Chua Bo Yu and his Nanyang Technological University teammates came in third in the SGX-NUS Stock Challenge. PHOTO: COURTESY OF CHUA BO YU

Take profit and cut losses when necessary

The path to investing for Mr Chua Bo Yu was born out of an interest in the financial markets and the desire to get going during his formative years.

His approach was one shared by his Nanyang Technological University teammates in the SGX-NUS Stock Challenge – Mr Tanea Jia Wen, 24, Ms Alethea Tan, 22, and Mr Gareth Loh, 24.

The group, which started buying stocks in recent years, mainly via online trading platforms, was third in the competition.

Mr Chua, 24, is in his third year of a double-degree in accountancy and business at Nanyang Technological University.

Q How did your team arrive at the buy recommendation for Health Management International (HMI)?

A First, we analysed the relevant macroeconomic trends and outlook of the healthcare industry that HMI operates in to determine if there were growth opportunities.

We then looked at HMI's company fundamentals, such as its competitive positioning in the market as well as its competitive advantages, to deepen our understanding of the business and determine if HMI was able to capture these growth drivers and derive higher returns.

Based on our analysis, we found HMI to be well positioned and have the capabilities to leverage industry tailwinds, thus arriving at the "buy" call for HMI with significant upside potential.

Q What valuation techniques did your team use?

A We used mainly the discounted cash-flow method.

We also relied on market-based valuation techniques, such as trading comparables of HMI's listed Asian hospital peers, to serve as a sense check to our discounted cash-flow valuation.

We used metrics such as price-to-earnings and enterprise value-to-earnings before interest, tax, depreciation and amortisation ratios and factored in HMI's small-cap valuation discount.

To ensure our valuation's robustness, we conducted a scenario analysis to test our assumptions. All of these approaches helped reaffirm our recommendation.

Q What did you learn as a team leader? And what did your team learn?

A As a team leader, I learnt that it is important to facilitate proper communication within the team as it will help to improve efficiency.

I also realised the importance of being open to ideas and feedback from my teammates, especially during the initial discussion stage, in order to arrive at the best recommendation.

Being the team leader is not just about doling out work to the team. A leader also has to ensure coordination, consistency and coherence of the workflow on top of his own share of the work. Ultimately,

this boils down to proper communication within the team.

Given the tight deadlines that we faced during the competition, we learnt that time management is important. We had to plan and manage our time properly and ensure that we completed our deliverables before we meet to discuss.

Also, we learnt that it is important to understand and leverage the individual strengths of each team member so as to achieve synergies and improve our efficiency.

Q Could you describe your personal investment strategy?

A My strategy is to invest in blue chips that I am familiar with that are undervalued by the market. I invest with a long-term view as I do not have the time to constantly monitor the markets.

On top of understanding a company's fundamentals, I conduct my own financial analysis to determine the right entry price for a stock.

Q What advice would you give to young investors?

A Young investors can start by cultivating a habit of keeping up with financial news to have a better understanding of the dynamics of the capital markets.

It also helps to put knowledge into practice by starting on online trading simulator platforms or start with a small capital to get a feel of the market and get their hands dirty.

One last advice would be to set your investment objectives and rules and remain disciplined to it and take profit or cut loss when necessary.

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MR CHUA BO YU on his personal investment strategy.