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STARTING YOUNG

Special interest in the Chinese economy

SMU student visits China every year to talk to the man in the street, reports **LIM WEI SHENG**

AN interest in investing began with the Teletext for 24-year-old Lim Swee Tian, who started taking note of the constantly changing figures on the screen when he was in Primary 6. But, it was during his national service, when a service injury put him out of action on the field, that Mr Lim focused serious attention on the financial markets.

The third-year economics and business student at the Singapore Management University is, in particular, an avid follower of trends in the Chinese economy and society. He makes two to three visits to various cities there every year. Each time, he talks to people on the ground, such as taxi drivers and food and beverage outlet operators.

He will intern with the Ministry of Foreign Affairs in July.

Despite his interest in financial markets, however, a career with an investment bank is not a foregone conclusion. "The good banks aren't doing very well these days," Mr Lim quips.

YEN MENG JIIN

Mr Lim: *'I don't invest in S-chips because I don't see why they want to raise money in Singapore dollars and use it to support operations in China which are in RMB*

Q: What was your first investment?

A: Back in 2008, during the trough of the Lehman crisis, a friend recommended a stock in the oil and gas sector, Rotary Engineering. The company fundamentals were good, yet the founder was continually buying back shares in huge volumes as their prices hit new lows.

We (Mr Lim and his friend) looked at the industry prospects – oil prices were high and there was a lot of demand for engineering, procurement and construction (EPC) services. Rotary was one of the major players and it was making profits despite the bad times, so we decided to buy shares.

Q: How did you and your friend proceed about making this investment? What were the results?

A: We did an average-down strategy where my friend would buy at 50 cents, then I at 45 cents, and so on. We increased the value of our purchases as the stock price went down, achieving an average buying price of 30 cents for the entire tranche.

When the market started to go up and we first sold, the price had already doubled. By the time we exited the investment, the price had quadrupled. I managed to earn about $100,000 from the process.

Q: Can you explain your decision-making process in making an investment?

A: The first part involves looking at macroeconomic conditions. From the industry point of view, I look at which point of the supply chain the company is at, how its clients are faring, as well as the creditworthiness of the business.

After looking at growth and opportunities in the industry, I also look at peer comparisons, especially price-earnings ratios. Within the company, I examine its cash flow and dividend yield.

Q: What does your Singapore equities portfolio look like currently?

A: Half of my Singapore portfolio is invested in business trusts. I bought shipping trusts back in 2007. I also invest in utilities trusts like K-Green, which does long-term service contracts – hence, it serves like a fixed deposit contract for me.

The other 50 per cent is in growth areas, such as education services and EPC players. I have a stake in Midas, which manufacturers components for trains in China. I'm pretty confident the railway business is going to grow, as railway proves a better transport solution compared to planes.

Q: What was/is your worst investment?

A: I would say it is in a counter named Healthway Medical. I was looking at the demographics, (and thinking) healthcare should do well, with the sector experiencing double-digit growth. I bought it at its IPO price, but it's fallen about 50 per cent, to date. I'm still holding on to it, though.

Q: Why do you think it did not perform as expected?

A: The company's finances were good when I first invested. Subsequently, it raised more money in a bid to start up in China. This is a good sign as demand will increase, but execution strategy hasn't been smooth. They incurred a lot of start-up costs but the investments have not started to pay off in terms of revenue.

Q: Why are you still holding on to it then?

A: To me, if I have 10 stocks, I wouldn't mind three stocks making a loss if seven stocks are doing very well. Also, I still believe that Healthway can turn things around. I'm also holding on because one of their shareholders is the International Finance Corporation, a World Bank unit which supports firms entering developing markets.

Q: Given your interest in China, do you invest in S-chips on the local bourse?

A: No. To me, if the S-chip companies are that good, they already have very developed financial markets in Shanghai or Hong Kong, so why would they want to list in Singapore? I don't see why they want to raise money in Singapore dollars and use it to support operations in China which are in RMB. That's why I don't invest in S-chips.

I do invest in China-linked companies in Hong Kong, though.

Q: What kind of investment trends are you currently interested in?

A: Recently, I have converted some of my Sing-dollar profits into HK dollars. The HK dollar is in a very unique position, as it is pegged to the US dollar. Given the eurozone crisis and US dollar still being the dominant currency, I would still want some exposure to the US dollar to obtain stability and capital gains.

However, I feel that if the US dollar does not do well in the long term, the Hong Kong Monetary Authority could revalue the currency or re-peg it to the RMB once it is internationalised. So, you could get the best of both worlds.

Q: Would you invest in derivatives?

A: I picked up derivatives when I was at EBS Business School in Germany. I think derivatives are good instruments to hedge your investments, if you do it right. I may want to experiment with them in the future, not right now, as many Singapore stocks do not have derivatives attached to them.

However, I won't consider engaging in derivatives trading alone, because I am a value investor, not a trader.

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