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Me & My Money

Entrepreneur Justin Lie's assets amount to US$30 million to US$40 million. PAGE B12

Stock pitch perfect

Competition among tertiary students to pitch a stock attracts record 85 teams this year

Lorna Tan
Invest Editor

The lives of many young people seem to focus on school assignments, leisure pursuits and social media but there are some who make time in their hectic schedules to pursue investing.

The passion they have was on display last month when a record 85 teams with 310 participants in all took part in a stock pitch competition among tertiary students.

The participants came from Singapore Management University (SMU), Nanyang Technological University (NTU), National University of Singapore (NUS) and Singapore University of Technology and Design.

Teams from SMU, NTU and NUS emerged as the top three in the fourth year of the NUS-SGX Stock Pitch Competition.

Participants had five days to submit a research report on a single stock. Eight teams were then selected and given 48 hours to prepare a final presentation from which the leading trio were picked.

The winner was an SMU team that made a pitch on Singtel. Coming in second was an NTU side that picked Sheng Siong, and an NUS group that opted for Best World took third place. They picked up cash prizes of $1,500, $700 and $300 respectively.

Assessment criteria included quality of the analysis, presentation delivery and responses during the question-and-answer session, with senior investment professionals forming part of the judging panel.

Ms Lynn Gaspar, the Singapore Exchange's senior vice-president for client development and relationship, was pleased that the competition continues to rack up record participation.

"We hope it inspires our students to pursue fast-paced careers in investments or trading, and gives them confidence to start investing early," she said.

"This year's finalists had stock recommendations that reflect a bullish outlook for the year ahead.

"During the competition, the students demonstrated breadth of valuation techniques and fundamental financial analysis, and did a good job of defending their assumptions and understanding of the companies' business during the pitch."

The Sunday Times talks to three members from the top teams.

lornatan@sph.com.sg

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TAKE YOUR TIME

Do not be too hasty in your decisions. Even if you miss an opportunity in the market today, there will still be opportunities in the future. Therefore, try not to chase the market blindly or make quick decisions without sound reasoning.

NUS UNDERGRAD DENNIS WOO, on what he would advise young investors.

Stay humble and learn from mistakes: Winner

MR YIM YI XIANG

SMU undergraduate Yim Yi Xiang, 22, who is pursuing a degree in economics, started investing in 2015 during his national service in the army. "My parents had their retirement fund invested in equities and I wanted to help them manage it as they did not have the time to do so," he says.

"Most importantly, I wanted to learn investing (be it active or passive) as it is an important skill to manage my savings in the future."

He self-studied accounting while in the army and applied that by reading and analysing annual reports of listed Singapore firms.

He and teammates Jonathan Khoh, 22, Louis Quek, 21, and Nevin Tan, 22, won the competition.

Mr Yim Yi Xiang sees investing as an important skill that will enable him to manage his savings in the future. ST PHOTO: FELINE LIM

Q *How did your team arrive at the "buy" call for Singtel?*

A We based our decision on the sustainable long-term growth of the firm and strong regional presence and market share of Singtel and its associates and joint ventures.

Furthermore, we see exponential growth of its emerging markets associates and its first-mover advantage in the future 5G technology implementation. Moreover, we expect sustained dividend returns to its investors compared with recent dividend cuts by its two main competitors, StarHub and M1.

Q *What valuation techniques did your team use?*

A We used a "sum-of-the-parts" valuation, which provides a range of values for a company's equity by aggregating the standalone value of each of its business units and arriving at a single total enterprise value. We also used the discounted cash flow method to value Singtel and performed a "relative valuation" for each of its associates.

The discounted cash flow model values the stock price by estimating future free cash flows and discounting them to arrive at a present value estimate.

Relative valuation is a method that compares Singtel and its associates' value to that of its competitors to determine the firm's financial worth. Thereafter, we summed these parts up to form our final target price of $4.52.

Q *What did your team learn from the competition?*

A We learnt the importance of selecting companies that provide sustainable long-term value for society. For this, we need to consider the strength of economic sustainability of the company, the conscious application of corporate governance principles and the consensual relationship of board, shareholders and stakeholders, and a sustainable dividend policy.

Finally, we learnt the importance of striving for the best and learning to be different. Even though Singtel is a huge conglomerate with many business parts to analyse and value, our team worked hard and took on the challenge.

Q *What's in your personal investment portfolio?*

A I have only Colex and AP Oil. Colex has risen by 87 per cent over two years and AP Oil has risen by 10 per cent over a year. I plan to analyse US stocks that I have shortlisted during my summer holiday.

My journey wasn't all that rosy. I lost 20 per cent when Osim was privatised. The worst part was finding out my parents bought into Osim as well. It was unfortunate.

Q *Describe your investing strategy.*

A I shortlist companies based on their return-on-equity and return-on-asset ratios as they show how effectively a business is generating profit with the equity/assets it has.

It's important to choose only companies and industries that I can understand with ease and am able to foresee their outlook reliably over the next 10 to 20 years.

I would read the company's annual reports and those of its rivals to understand the business and the industry. I would then adjust the financial data to obtain the best picture of how the company's ordinary business operation is doing and apply a suitable interest rate to discount its cash flow to obtain the intrinsic value.

Q *What advice would you give to young investors?*

A Reading and self-learning are important to be a good investor. Reading books by Ben Graham (The Intelligent Investor, Security Analysis) and Bruce Greenwald (Value Investing) and Warren Buffett's shareholder letters is a good start.

Reading newspapers such as The Business Times, The Straits Times, The Wall Street Journal and Financial Times would help you stay up to date with current corporate affairs. I also believe that mastering accounting technicalities is a prerequisite to being a successful analyst.

Stay humble and be willing to learn from your mistakes. Lastly, join clubs and societies in your school that would allow you to meet like-minded individuals with a similar passion for investing. Joining the SMU-Student Managed Investment Fund, an investment club, was the best decision I have made.

Lorna Tan

Boost in confidence to invest on her own

MS KIMBERLEY TAN

NTU undergraduate Kimberley Tan, 21, has not started investing but that did not deter her from participating in the NUS-SGX Stock Pitch Competition 2017 last month.

With the exposure from the competition, she is now more confident of investing on her own.

"Recently, I signed up for a trading account under Poems by Phillip-Capital when they came by my school. I have also been doing simulated trading on the app TradeHero to get used to following the markets. I plan to keep reading up and leverage on the resources I have at school to conduct my research."

Ms Tan and her teammates Lim Yu Xin, 21; Lim Jiing Wei, 22; and Chia Ying Wen, 26, emerged as first runners-up in the contest.

Ms Tan is pursuing a degree in the accountancy and business faculty, specialising in banking and finance.

Ms Kimberley Tan says it was only in business school that she realised the value of putting money to work. ST PHOTO: MARK CHEONG

Q *How did your team pick Sheng Siong and arrive at the "sell" call?*

A The counter caught the eye of Yu Xin, who actively invests in the Singapore market. It was at the time when AmazonFresh announced its intention to venture here. Intrigued by the possible implications, our team decided to delve deeper to see how Sheng Siong would be affected by this. We discovered Sheng Siong not only faces the threat of online disruptors, but is also vulnerable to the erosion of existing success factors.

First, we believe that new store growth will be difficult, given the sharp decrease in supply of HDB pipeline opportunities and the increase in demand from not only small store players but also deep-pocketed players such as Cold Storage.

Second, margin improvement strategies are expected to be ineffective. Sheng Siong will be expanding its Mandai distribution centre by 40 per cent, but it is only 75 per cent utilised. Higher operating expenses are expected to limit any potential cost reductions.

Lastly, incoming disruptors such as AmazonFresh and Alibaba-backed Redmart are many times larger than current online grocers and have shown great tolerance for incurring losses to achieve strategic objectives. The market has grossly underestimated the capabilities of online players. The entrance of AmazonFresh will result in reduction in Sheng Siong's pricing power and market share. Based on the factors above, we arrived at a contrarian "sell" recommendation on Sheng Siong with a target price of 79 cents, implying a 16.8 per cent downside potential from its closing price of 95 cents.

Q *What valuation techniques did your team use?*

A Our team used a weighted average of three valuation techniques. They are the dividend discount model (DDM), relative valuation, and the discounted cash flow (DCF) model, to arrive at our target price of 79 cents. The DDM values a stock's price by using the predicted dividends and discounting them back to the present value. Sheng Siong's dividend payout ratio has been maintained at around its management guideline of 90 per cent. Given the high ratio, the team does not expect it to increase further in the future. Dividend growth, hence, will be reliant on earnings growth. Sheng Siong is a strong and stable income stock operating in a defensive sector.

When choosing comparable companies under the relative valuation method, the team considered firms that were operating in the grocery retail space. The DCF model values the stock's price by estimating future free cash flows and discounting them to arrive at a present value estimate. A five-year discounted cash flow analysis was used to estimate the intrinsic value of Sheng Siong's share price. Based on our findings, we believe it will be able to enjoy up to five years of excess returns before settling into slower growth.

Q *What did your team learn from the competition?*

A Our key takeaway was learning the importance of preparing the report and presentation in a way that was easily digestible and yet compelling. We realised the clarity of our arguments was an important hurdle, and were glad we spent extra effort to prioritise the key information, ensuring a clear flow. Furthermore, it was an enriching experience to have our work evaluated by industry professionals to understand what they look for in stock analysis.

Q *Please share some money lessons.*

A My financial values are mostly derived from my parents. From a young age, I was taught to save and spend only on items worth buying. As I grew up, this translated into balanced spending habits, where my parents would let me manage my own allowance. But it was only in business school that I realised the value of putting money to work.

As a future investor, I intend to pursue a buy-and-hold strategy.

Lorna Tan

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