

Section **Corporate**
Pages **08 to 09**

Straits Trading banks on modern-day trends; stakes in MSC, property portfolio undervalued

STORIES BY **JOAN NG**

Chow Gek Khim enjoys visiting factories, perhaps because holidays with her grandfather used to involve touring a factory of some sort. "My grandfather tried to take his grandchildren on holiday with him, but it was usually a working holiday. I think I've seen quite a few bottling factories... and bank branches," says the executive chairman of The Straits Trading Co. Her grandfather, the late Tan Chin Tuan, was instrumental in building **Oversea-Chinese Banking Corp (OCBC)** and also served on the boards of many businesses — among them **Malayan Breweries**, **Fraser and Neave**, **Robinson & Co** and **Straits Trading**.

But when Chew visited the smelting facility of **Malaysia Smelting Corp** some years ago, she was shocked. "I saw it when I was a girl. And I went to the smelter again and thought: 'This is not right. Factories have changed. The world has changed. How can you be running things the way you did in the 19th century?'" she says. Straits Trading owns 54.8% of Bursa Malaysia-listed **MSC**, among the largest independent tin smelters in the world.

It did not take much for Chew to begin prodding the management of **MSC** to think about upgrading the smelter. "The guy on the ground may not be able to see it because he's too busy firefighting. He's trying to make the plant work, he's trying to pay bills, he's trying to deal with workers," she says. Now, **MSC** is preparing to move its production from an old-fashioned furnace to a modern one. The new furnace is expected to operate with less manpower and will also reduce the amount of tin that is lost in the smelting process. **MSC** CEO Patrick Yong is expecting it to make a significant difference to the company's bottom line (see "Malaysia Smelting sees savings with new smelter; tin use may grow with EV industry").

Chew wants the entire Straits Trading group



Chew says she wants to take the real-estate business in a more contemporary direction

to adopt a similar innovative approach to its operations. "One of the things I have told the [real-estate] team to look out for is technology companies we can work with. I'm trying to make all the CEOs look at how we can use technology to enhance our business," she says. For that reason, Chew says, she tries not to get too involved in the day-to-day operations of the group. "I spend time trying to figure out how to do business better. You try to pull yourself out of the day-to-day and step back [so you can see what changes need to be made]."

Remaking a legacy

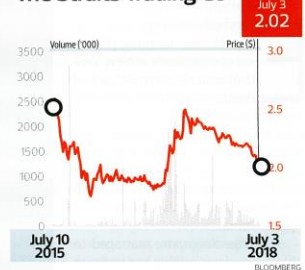
Since taking control of Straits Trading in 2008, Chew has strived to constantly look forward and adapt the company for a changing world. Straits Trading actually started out in 1887 as a

tin smelting company. It opened its first smelting plant on Pulau Brani in Singapore in 1890, and its second smelting plant in Butterworth, Penang in 1902. The plant in Singapore is no more, but **MSC** still operates the one in Penang.

In the early 1960s, Straits Trading formed a property division and built the Straits Trading Building in Kuala Lumpur, Malaysia. In 1965, when the late Tan assumed the role of chairman, the company began to diversify its business in earnest. Among other things, he oversaw the construction of the iconic 21-storey Straits Trading Building on Battery Road in Singapore.

Tan retired in 1992, but Straits Trading continued on its diversification path. It took over management of a hotel in Perth, Australia, and built the **Rendezvous Hotel** on Bras Basah Road. In 2004, **MSC** acquired **Rahman**

The Straits Trading Co



Hydraulic Tin — one of Malaysia's oldest tin mining companies.

In 2008, following a tussle with **OCBC's Lee** family, Chew secured majority control of Straits Trading via her family firm **Tecity Group**. She has since divested some assets and ploughed the capital into new investments, mostly in the property sector (see timeline). Straits Trading also grew its hospitality operations through an alliance with **Far East Organization**.

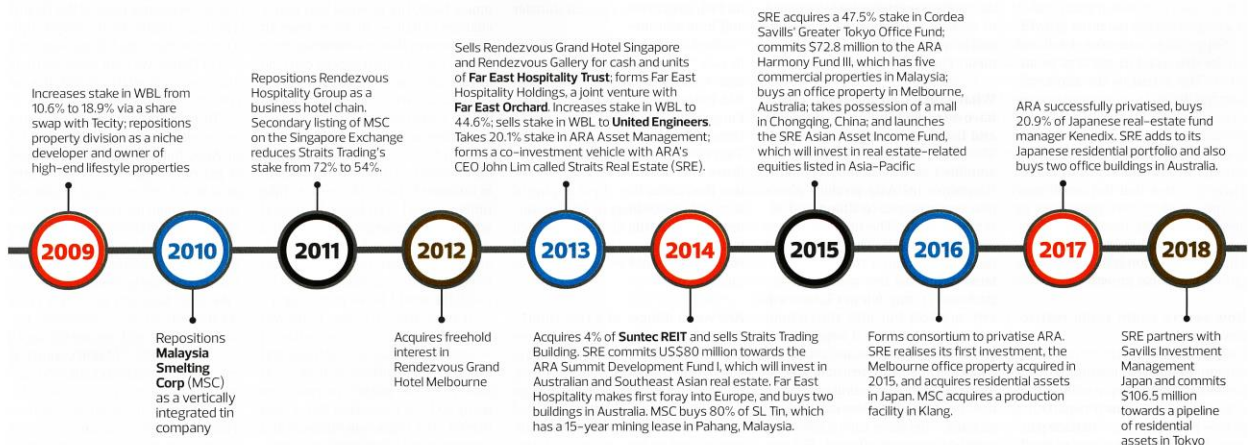
"I tried to take what we had and see how we could change the business to give it a higher return. I also tried to change the business in a way that I thought was in line with how the world is going," she explains. "For example, they were doing property development. They developed **China Square**, and then they didn't develop anything for 10 years after that. It was too infrequent. And I don't think that's a good way to run a property development business."

Chew says she wants to take the real-estate business in a more contemporary direction. "I look at **ARA** [Asset Management]. That, I think, is a big business, where you are a manager of real-estate funds. I think this is how the world of real estate is going — being securitised,"

CHARTS: COMPANY FILINGS

Transforming operations

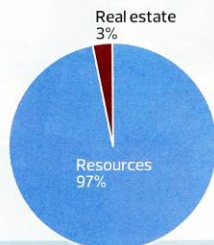
Since it came under the control of **Tecity Group** in April 2008, Straits Trading has refined its focus and made new investments



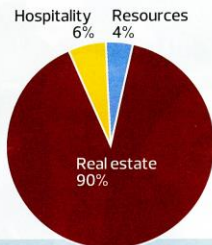
Property driving bottom line

While Malaysia Smelting Corp makes up the bulk of Straits Trading's revenue, its real-estate segment is still the key earnings contributor

2017 Revenue breakdown



2017 Earnings breakdown



she says. "This democratisation that we see is increasingly widespread."

Low-risk real-estate fund

MSC currently contributes the bulk of Straits Trading's revenue, but most of the company's earnings come from its property segment. This consists of an 89.5% stake in Straits Real Estate (SRE) and a 21% stake in ARA, a manager of real estate investment trusts and real-estate funds that used to be listed on the Singapore Exchange. Straits Trading also receives dividend income from a stake in **Suntec REIT**, which is among the REITs that ARA manages.

Straits Trading has committed capital of up to \$950 million to SRE. Some of that money has already been invested in Australia, China, Japan and Malaysia. Chew says the SRE investment team — currently numbering about 15 — works on a bottom-up basis to select assets that will deliver good returns. "We pay a lot of attention to the risk. When you look at risk, you have to think of geography, you have to think of the economy at that time, you have to think of the country's finances at that point in time," she says.

The properties are picked for their ability to generate income as well as capital gains. For instance, in 2016, SRE sold one property in Melbourne for a sizeable gain. Chew says the company is now trying to repeat the process in Perth. Recently, SRE has begun buying small apartment blocks in Japanese cities. "The thesis is that young people in Japan will leave their home towns or home villages and go to [cities such as] Tokyo and Osaka to work. And so they will need a home for a few years. They don't mind a small place — clean, well-managed, that's it," Chew says. When SRE has accumulated enough apartment blocks, the plan is to sell them as a package or REIT them. "The value-add is we have to individually go find those apartment blocks."

Chew has set targets for the various business units within Straits Trading. "[For SRE], we already have a double-digit internal rate of return. But we have not put as much money into SRE as we would like," says Chew. "We hope to commit the full \$950 million... and when we commit that, we hope that we will be able to get a 10% return. Right now, we get that on individual projects, but we don't get that every year because we're not selling every year."

At ARA, Chew expects to eventually see a relisting. On June 4, it completed the acquisition of a 19.5% interest in Australia's **Cromwell Property Group**. This takes ARA and its associates' assets under management to \$77.2 billion — up from \$35.6 billion at end-2016. "ARA has a target and when they reach their target, they will be relisting," says Chew.

Straits Trading also has a 30% stake in Far East Hospitality Holdings and a small stake,

less than 5%, in **Far East Hospitality Trust**. The former manages over 14,000 rooms in more than 90 hotels and serviced residences across seven countries. Far East operates 10 brands, including Rendezvous, Oasia and Travelodge Hotels. In the hospitality business, Chew says the big challenge is trying to generate a reasonable return from operations. "Both sides would like to see a higher return," she says, referring to Straits Trading's partner in the venture, **Far East Orchard**. "There are a lot of hotels in Singapore and right now, rates are not as high as they could be. It's a cyclical thing."

Undervalued stock

Shares in Straits Trading closed on July 3 at 2.02, significantly below their net asset value of \$3.52 as at end-March. Chew has not had much luck convincing the investment community that the stock is worth more. In April last year, OCBC Investment Research initiated coverage on Straits Trading with a fair value of \$2.73. The research house applied a 15% discount to the company's revalued net asset value of \$3.21 at the time to derive its fair-value estimate. OCBC has since ceased coverage of Straits Trading, though. No other analysts cover the stock.

One possible reason why Straits Trading is unable to gain a steady investor following is its lack of locally listed peers. As a conglomerate with three major businesses — a tin miner and smelter, a hotel operator, and a real-estate fund — the company is unlike any other. Chew is aware of this challenge but says she would like investors to see Straits Trading as a low-risk, real-estate fund that is building up to deliver sustainable returns to investors.

"They have to think of it as a portfolio manager. If you have a good portfolio manager, he will have a good selection of stocks. Here, you have a good selection of real estate. And I would like them to think that the SRE team knows how to choose the real estate — they know when to buy, what to buy, where to buy," she says. "We know how to calibrate risk... and we are the only company in Asia that is doing this."

Potential catalysts for the stock include consistent returns from SRE, the relisting of ARA and improving numbers at MSC. Demand for tin could grow as the metal can be used in electric vehicle batteries. Chew therefore has a very optimistic target for MSC. "I dare not say it. My MSC target is very high compared with the rest. It's a relatively small part of [Straits Trading], and I'm spending a lot of time and effort [on it]. And the reason is I have a blue-sky target. If you see the use of tin in electric cars pick up, there's no reason why the return shouldn't be very high," Chew says. Perhaps now's the time for investors to relook at the modernised Straits Trading.

Malaysia Smelting sees savings with new smelter; tin use may grow with EV industry

SAMUEL ISAAC CHUA/THE EDGE SINGAPORE

Patrick Yong, CEO of Malaysia Smelting Corp (MSC), is excited about tin. "A lot of people think tin is a sunset industry. Hardly. It's the most exciting non-ferrous metal now, to me. And a lot of people share that opinion too," Yong says. While tin today is widely used for canning and soldering, new uses of the metal are still being discovered. Among the most exciting: batteries for electric vehicles (EVs).

As researchers try to make batteries for EVs that can charge up more quickly, store more power and last longer, tin is increasingly coming up as a viable solution. For instance, engineers at Cornell University recently found that tin is an effective means of protecting lithium and sodium anodes, which have greater capacity than the currently used graphite anodes but are highly reactive with battery electrolytes. Meanwhile, researchers at the University of Texas at Austin found that an alloy of aluminium, zinc, and tin with lithium was able to double the charge capacity of lithium-ion batteries.

The technology is not quite ready yet. But MSC has other things going for it. Yong has a PhD in electrical engineering and is putting it to good use doing something that has never been done before: convert a lead smelting facility into one that can smelt tin.

In 2016, MSC paid RM50 million for a factory in Klang, Malaysia that was being used to extract lead from lead-acid batteries. The plant has a modern, efficient furnace and MSC wants to use that furnace to smelt its tin instead. "We have to refurbish the plant such that the process of lead reclamation is replaced," says Yong, who coincidentally used to be CEO of lead-acid battery maker Yokohama Industries. "We are starting from the primary input [of] ore, so there's no use for a [battery] crusher [or] a water treatment plant." Also, the lead smelting plant is fully automated. "So, we had to change the programme. The programme was written to do lead, and we had to rewrite the programme to do tin," Yong adds.

Yong's engineering marvel will replace a smelting furnace that is more than 100 years old. MSC's current smelting facility in Butterworth, Penang is inefficient and actually costing the company money. "The furnace is made up of steel plates, bricks and insulating material. After a while, they start to become porous and leak," says Yong. When tin ore is melted, some of the tin is usually lost as it turns into gas and escapes through vents. But at MSC's plant, liquid tin also leaks out of the furnace. The leakage is "higher than what a



Yong: A lot of people think tin is a sunset industry. Hardly.

professional would expect", Yong says.

Besides this, the Butterworth plant uses an old-fashioned technology called a reverberatory furnace. It is a relatively simple structure, similar to a pot placed over a stove. Waste is skimmed from the top and tin accumulates at the bottom. Smelting tin this way takes more time and uses more heat. The plant in Klang has a top submerged lance (TSL) furnace. The furnace earned its name from the lance running through its centre. Gas is fed into the lance and ignited, directly injecting heat into the furnace and the tin ore. The technology increases reaction and production rates.

The cost to refurbish the TSL plant will be about RM80 million (\$27 million), which Yong says is faster and also cheaper than building a brand-new plant at RM250 million. There will be cost savings too. Yong says at the new facility, tin leakage is likely to be just one third of what it is currently. The number of people required to run the facility will be halved. The TSL furnace also has a larger production capacity — 40,000 tonnes a year for a start and up to 60,000 tonnes a year with oxygen enrichment. Currently, MSC is producing about 26,000 tonnes a year.

MSC also hopes to increase the amount of tin that it mines. Only about 6% of the tin that MSC is smelting and refining today comes from tin that it mines itself. The rest is tin that is acquired from third parties. Yong says MSC will be able to improve its margins if it is able to raise the ratio of its own tin that it smelts to anywhere from 30% to 70%.

Shares in MSC have declined 7.8% over the past year, possibly because the company's revenue and earnings have weakened. Last year, MSC's revenue fell 2.8% y-o-y to RM1.4 billion on lower sales of refined tin. Earnings declined 53.1% y-o-y to RM16.1 million as inefficiencies in the old tin smelter led to losses. MSC will only be able to move its tin smelting operations to the Klang smelter next year. Until that happens, the stock weakness is likely to continue. But that could spell an opportunity for investors who believe in Yong's vision.

Malaysia Smelting Corp



BLOOMBERG