

10 in 10 – The Straits Trading Company Limited (SGX Code: **S20**)

10 Questions in 10 Minutes with SGX-listed companies

**STRAITS
TRADING**
ESTABLISHED 1887

A MEMBER OF THE TECITY GROUP



10 Questions for The Straits Trading Company Limited

Company Overview

Incorporated in 1887, The Straits Trading Company Limited (**Straits Trading**) holds stakes in real estate, hospitality, resources and investments across the Asia Pacific region. It owns a 89.5% stake in Straits Real Estate, 21.0% stake in fund manager ARA Asset Management, 30% interest in international hospitality owner and operator Far East Hospitality Holdings, and a 54.8%-owned subsidiary in tin miner and smelter Malaysia Smelting Corporation Berhad.

[Link to StockFacts company page.](#)

SGX Code: S20	BBG: STRTR SP	RIC: STCM.SI
Market cap on 5 Apr (S\$m)	921.5	
Price on 5 Apr (S\$)	2.26	
52 wk high/low	2.33 – 1.96	
12m ADTV (S\$)	112,612	
Shares Outstanding (m)	407.7	
Float	20.0%	
P/E (LTM)	12.8	
P/B (LTM)	0.6	
Dividend Yield	2.7%	

Source: Bloomberg (5 Apr 2019)

1. What are some notable developments that Straits Trading's shareholders can look forward to?

- Our real estate business is now delivering more consistent results with its strategy to grow its portfolio of income-accretive assets that have good potential for capital gains. We expect this segment's profitability to be more stable in the future as it scales up.
- Malaysia Smelting Corporation's (**MSC**) relocation to a new smelter with upgraded technology at Pulau Indah Port Klang is expected to be one of most modern and cost-efficient tin smelters globally, improving yields and lowering costs upon full migration and commissioning. We also intend to redevelop the Butterworth land that the old smelting plant is currently situated at, which we believe have significant redevelopment potential.
- We also believe that we are well-positioned to benefit from the growth of ARA Asset Management (**ARA**).

2. What are some of Straits Trading's main business segments and their growth drivers?

- We have three main business segments:
 - **Real Estate** – Comprises of 89.5% interest in Straits Real Estate (**SRE**), 21.0% in ARA, a stake in Suntec REIT, and a portfolio of legacy investment properties in Singapore and Malaysia. We expect this segment to continue to grow in scale through strategic acquisitions and investments. We are also seeing growth opportunities with ARA in China, Korea, Australia, Singapore, United States and Japan.
 - **Hospitality** – Comprises of 30% interest in Far East Hospitality Holdings (**FEHH**), a hotel owner and operator with global network of 94 hotels through a joint venture with Far East Orchard Limited. The Group plans to substantially increase its scale to 150 properties or 30,000 rooms by 2023 and has started doing so with its maiden foray into Tokyo and securing contracts in Sentosa.
 - **Resources** – Comprises of 54.8% interest in MSC, the world's largest independent custom tin smelter. MSC's new smelter, equipped with upgraded technology, is expected to improve recovery yields, operational efficiencies and manpower costs. In addition, discoveries for new tin applications such as lithium-ion batteries in electric vehicles and robotics/automation sectors may be beneficial for us.

3. Describe Straits Trading's profitability/margins over the past 5 years.

- In FY2018, the Group's profit after tax and non-controlling interests (PATNCI) grew 54.5% to a 5-year high of S\$71.1 million, largely attributable to:
 - PATNCI from Real Estate has been strengthening steadily, which has grown 54.0% YoY to S\$69.2 million. This was largely contributed by SRE, which generated higher recurring cash income from its enlarged portfolio in Japan and Australia, and improved contribution from our stake in ARA.
 - Our Resources segment has been profitable for three consecutive years with net profits after tax increasing 113.0% YoY to RM 34.3 million. This was largely due to improved performance in MSC's tin smelting segment, which posted a turnaround with a net profit of RM 10.2 million in FY2018 from a net loss of RM 18.8 million in FY2017.

4. Straits Trading predominately invests in the Real Estate. How does it differentiate itself from other property developers, operators or investors?

- We see ourselves as pro-active property investors, rather than developers or operators, given we do not have a large development or operations team. We focus on identifying investment opportunities, allocating capital to projects where we have a good understanding of the risks, and leveraging on the strengths of our partners.
- Our investments in SRE, ARA, Suntec REIT and FEHH form the Straits Trading Real Estate Ecosystem, a synergistic platform to allocate capital efficiently and gain enhanced access to opportunities. This differentiates us from other firms, in our view.

REAL ESTATE ECOSYSTEM

Structured for efficient capital allocation and enhanced access to opportunities

PROPERTY PORTFOLIO

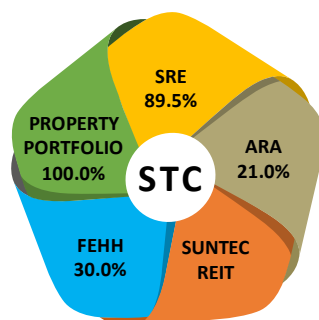
S\$317 million property value

Legacy investment properties in Singapore and Malaysia to monetise and redeploy capital

FEHH

94 hotels and over 14,700 keys

Hotel ownership and management services



SRE

S\$1.4 billion AUM

Direct real estate investments
Other real estate opportunities⁽¹⁾
Investment securities

ARA

S\$80.1 billion Gross AUM

Private fund management
REIT management
Real estate management services
Infrastructure

SUNTECREIT

S\$9.9 billion AUM

Prime commercial and retail portfolio in Singapore and Australia central business districts

⁽¹⁾ Including investments in development projects, special situations, mezzanine deals, etc.

☑ Enhanced deal flow ☑ Arbitrage opportunities ☑ Ideas exchange ☑ Access to property value chain

5. Could you elaborate on your property investment strategies in Australia and Japan? What does Straits Trading look out for when acquiring assets?

- In Australia, our focus is in commercial and logistics sectors where we seek assets with strong immediate, recurring cash flow and value-adding opportunities. For example in Perth, 45 St Georges Terrace's under managed rent roll offered an opportunity to create value by actively improving quality of the building tenancy and raising rental levels in a recovering office property market. Our active asset management has resulted in raising the building's occupancy to over 90%.
- Our Japan strategy is two-pronged. We aim to grow income-producing residential assets to aggregate into a larger portfolio as well as acquire office assets with high potential for capital gains, both with an exit optionality. Location is key and we prefer assets that are centrally located and have convenient access to transport in Greater Tokyo and Osaka.
- In acquiring assets, we look for those that have unrealised latent value. We also have a growing track record of successful value enhancement initiatives.



Straits Trading acquired 320 Pitt Street in Sydney, a prime CBD location which recorded a S\$30.0 million valuation gain in 2018 from asset enhancements

6. What is management's longer-term vision for Straits Real Estate?

- As an integral part of the Straits Trading Real Estate Ecosystem, SRE will continue to grow its portfolio of income accretive assets and deliver consistent return on capital. SRE has also proven its competency in identifying assets with unrealised latent value.
- Geographically, SRE will continue to strengthen its existing footprint in Japan and Australia while exploring opportunities in other countries. In the longer term, SRE aims to be global real estate investor with investments in multiple countries and across multiple asset classes.

7. What are Straits Trading's future plans for ARA Asset management post its privatisation?

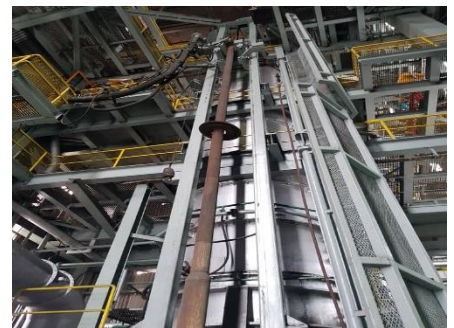
- Post privatisation in 2017, ARA has undergone an accelerated phase of expansion, and growing FY2018 net profit contributed by ARA to Straits Trading to S\$24.2 million, up 64.6% YoY. Gross AUM of ARA Group and its associates has since grown to S\$80.1 billion as at 31 December 2018 and management plans to continue growing its AUM to over S\$100 billion by 2021 and may consider a potential relisting.
- We believe we are strategically positioned to benefit from ARA's growth proposition and plan to continue to create value as a strategic shareholder.

8. Could you elaborate on the future prospects of Malaysia Smelting Corporation and uses of tin in technological applications?

- Tin has many uses and its application is widespread. Examples of its uses range from the manufacturing of smartphones, cars, food packaging to solar cells. Recently, Rio Tinto has also nominated tin as the metal most likely to be impacted by new technology, supporting the view that advancements in technologies are set to increase the demand for tin (Source: [Rio Tinto Presentation](#)).
- We believe demand for tin will increase as new applications are being developed, particularly in the semiconductor and battery segments. An example would be the discovery of tin as an important catalyst in Lithium batteries for electric vehicles, as it can increase the energy storage capacity of the battery and enable a faster charging rate.

9. Can you elaborate more on the opportunities for the freehold land at Butterworth, Penang?

- With the relocation of MSC's tin smelting plant, Straits Trading and MSC intend to unlock value of the land at Butterworth, Penang.
- We see significant redevelopment potential for the land given its size and prime location. The land parcel is 40.1 acres, offers a panoramic view of Penang Island and is a 5 to 10 minute drive to the newly launched integrated transportation hub, Penang Sentral.
- Penang's Draft Master Plan 2030 has also earmarked Butterworth as an extension of its key district, George Town, making it an attractive location for residential and commercial developments. We believe these merits will appeal to a wide range of investors and property developers.

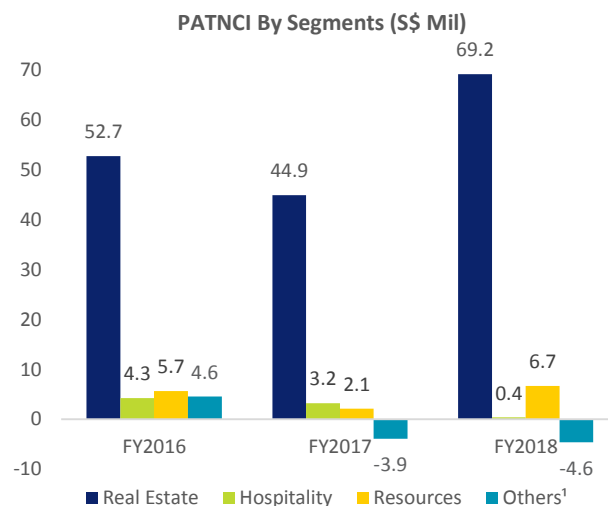
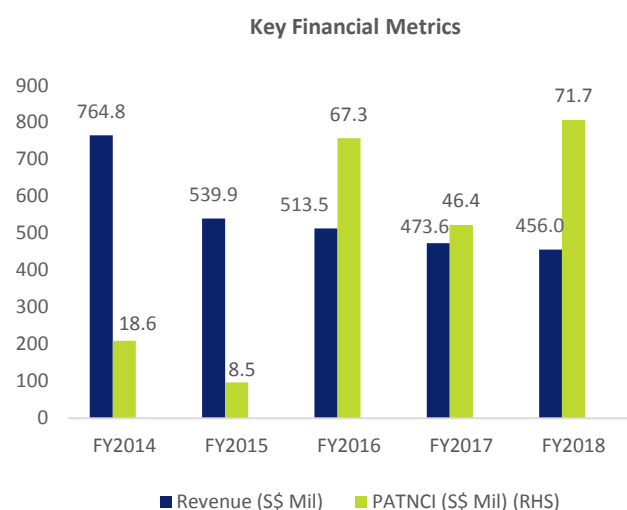


Top Submerged Lance furnace employs a more comprehensive single stage continuous smelting process, enabling higher operating efficiency, lower operating expenditure while bringing about a much smaller carbon footprint

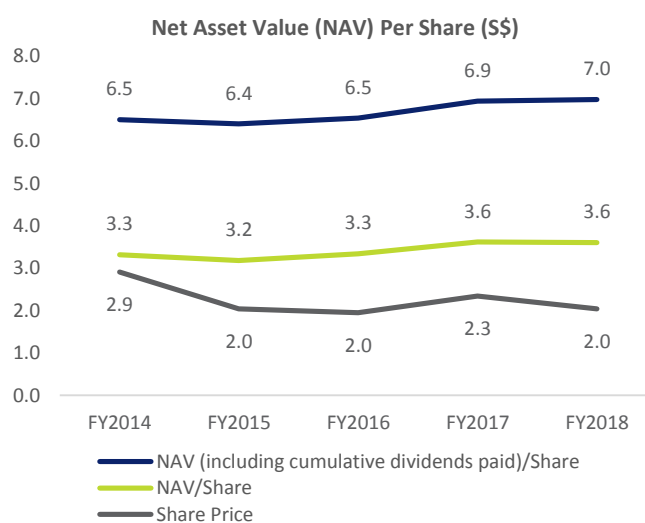
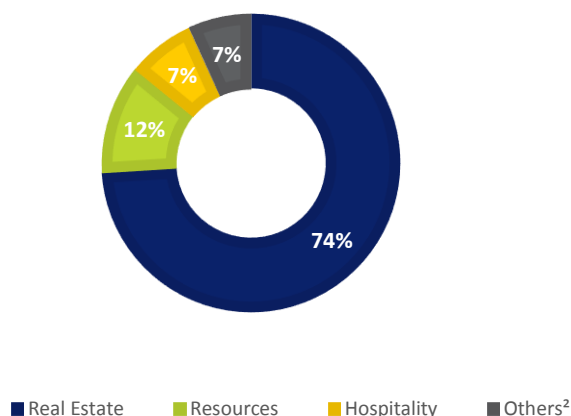
10. What is Straits Trading's value proposition to its shareholders and potential investors?

- Straits Trading is an investment company with a diversified portfolio of investments. We believe that we are effective in recycling capital from our lower-yielding assets into investments offering higher risk-adjusted returns.
- Our Real Estate Ecosystem is unique to Straits Trading and we hope investors can view our intrinsic value from a “sum of the parts” perspective where each of our investments (in SRE, ARA, FEHH, MSC) are significant growth platforms that generate good and sustainable returns with positive growth potential.

Financials & Charts



Total Asset Breakdown By Segments



¹ Comprises of Group-level corporate and treasury services

² Comprises of Group-level cash, separate account portfolio

Source: Company data



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Designed to be a short read, 10 in 10 provides insights into SGX-listed companies through a series of 10 Q&As with management. Through these Q&As, management will discuss current business objectives, key revenue drivers as well as the industry landscape. Expect to find wide-ranging topics that go beyond usual company financials.

This report contains factual commentary from the company's management and is based on publicly announced information from the company.

For more, visit sgx.com/research.

For company information, visit www.stc.com.sg
Click [here](#) for March 2019 Corporate Presentation

Notes

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