

The Straits Trading Company Ltd

Bloomberg: STRTR SP | Reuters: STCM.SI

Refer to important disclosures at the end of this report

DBS Group Research . Equity

4 Feb 2021

DBS is supported by the Research Talent Development Grant Scheme which aims to groom research talent to expand research coverage of small-mid cap SGX listed companies

BUY

(Initiating Coverage)

Last Traded Price (3 Feb 2021): S\$2.33 (STI : 2,927.47)

Price Target 12-mth: S\$3.50 (50% upside)

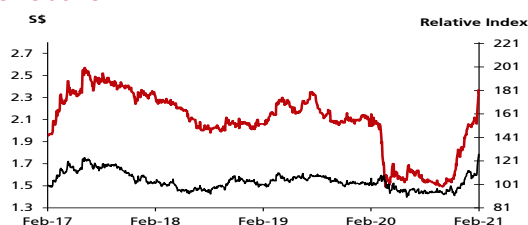
Potential Catalyst: Relisting of ARA, higher tin prices, acquisitions and asset recycling initiatives, capital commitments

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Price Relative



— The Straits Trading Company Limited (LHS) — Relative STI (RHS)

Forecasts and Valuation

FY Dec (S\$m)	2019A	2020F	2021F	2022F
Revenue	364	306	405	417
EBITDA	138	107	91.4	101
Pre-tax Profit	129	73.5	79.6	76.6
Net Profit	84.4	53.1	57.5	55.3
Net Pft (Pre Ex.)	57.5	47.2	26.3	37.1
EPS (S cts)	20.7	13.0	14.1	13.6
EPS Pre Ex. (S cts)	14.1	11.6	6.46	9.11
EPS Gth (%)	18	(37)	8	(4)
EPS Gth Pre Ex (%)	41	(18)	(44)	41
Diluted EPS (S cts)	20.7	13.0	14.1	13.6
Net DPS (S cts)	6.00	6.00	6.00	6.00
BV Per Share (S cts)	373	380	388	396
PE (X)	11.2	17.9	16.5	17.2
PE Pre Ex. (X)	16.5	20.1	36.1	25.6
P/Cash Flow (X)	34.1	15.2	nm	9928.4
EV/EBITDA (X)	11.5	13.7	16.5	14.9
Net Div Yield (%)	2.6	2.6	2.6	2.6
P/Book Value (X)	0.6	0.6	0.6	0.6
Net Debt/Equity (X)	0.3	0.2	0.2	0.2
ROAE (%)	5.7	3.5	3.7	3.5

GIC Industry : Real Estate

GIC Sector: Real Estate Management & Development

Principal Business: The Group's key investments include Malaysia Smelting Corporation, Straits Real Estate, ARA Asset Management, and Far East Hospitality Holdings.

Source of all data on this page: Company, DBS Bank, Bloomberg Finance L.P.

Come get the Crown Jewel

- Significant value to be extracted upon the potential listing of ARA Asset Management (ARA) in 2021/2022
- "Crown Jewel" ARA estimated value of S\$2.06/share comes free at STC's current share price
- Commercial and logistics portfolios churn out stable cashflows with potential gains upon divestments
- We initiate coverage with BUY and TP of S\$3.50

Trading below replacement costs. We initiate coverage on Straits Trading Company (STC) with a BUY recommendation and TP of S\$3.50. We see compelling value in the company, trading at just 0.6x P/NAV and an even steeper discount to its realisable value. With the impending listing of ARA Asset Management (ARA) in 2021/2022, we believe STC is positioned to benefit significantly from the unlocking of value in ARA.

ARA is worth S\$2.06/share and it comes free at the current price. We believe the planned relisting of ARA in 2021/2022 to be at a valuation range of S\$4-4.5bn, with a current attributable value to STC at c. S\$2.06/share. This comes "free" at the current price. We expect STC to trade at a higher premium to its past valuation multiples as ARA's listing becomes imminent.

Core real estate business churns out stable recurring cashflows. The Group's real estate arm – Straits Real Estate (SRE) has been timely in its real estate investments, amassing a portfolio of quality commercial and logistics assets with an initial yield of 6.5%, which we believe could compress given the low interest rate environment. The Group remains on track to grow its AUM to S\$2.4bn by 2022.

Valuation:

Initiate with BUY and TP of S\$3.50, based on a SOTP valuation method and a 40% holding company discount. The bulk of our valuation stems from SRE (S\$2.26 p.s.) and ARA (S\$2.06 p.s.).

Key Risks to Our View:

Revaluation losses on its properties, disruption to MSC and FEHH.

At A Glance

Issued Capital (m shrs)	407
Mkt. Cap (S\$m/US\$m)	948 / 711
Major Shareholders (%)	
Cairns Pte Ltd	70.2
Standard Life Aberdeen	5.0
Free Float (%)	24.8
3m Avg. Daily Val (US\$m)	0.18



Live more, Bank less

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Investment Summary

We are initiating coverage on The Straits Trading Company (STRTR SP) with a BUY recommendation and TP of S\$3.50, representing a potential upside of 50% from its last traded price of S\$2.33. We believe that The Straits Trading Company (STC) is a deep valued stock and that the market is applying a huge discount due to its complex corporate structure.

Our TP of S\$3.50 is based on a sum-of-the-parts (SOTP) valuation method, aggregating its interests in Malaysia Smelting Corporation (MSC), ARA Asset Management (ARA), its property portfolio, including Straits Real Estate, its holdings in Suntec REIT units, and Far East Hospitality Holdings (FEHH).

Summarised Valuation of STC's Key Components

Component	Relationship	Valuation Method	Value per Share (S\$)*
MSC	Subsidiary	P/E	0.23
SRE	Subsidiary	RNAV	2.26
ARA	Associate	SOTP, EV/EBITDA	2.06
Property Portfolio	Investment Properties	RNAV	0.50
Suntec REIT Units	Investment Securities	DBS TP	0.36
FEHH	Joint Venture	RNAV	0.41
Total			5.84
40% Holding Company Discount			(2.33)
STC's Valuation			3.50

Source: Malaysia Smelting Corporation, ARA Asset Management Limited, URA, Bloomberg Finance L.P., Company, DBS Bank Estimates
*Denotes value attributable to STC

Potential upside of 50% despite applying a 40% holding company discount. Since early 2015, the market has, on average, been applying a 37.1% discount to STC's reported NAV. We have applied a holding company discount of 40%, which is comparable. Despite such a deep discount, we still arrive at a fair value that implies a potential upside of 50%.

1) The Strong, Sturdy Engine – SRE. SRE has been a key growth engine for STC, increasing its Assets Under Management (AUM) at a CAGR of 33.9% from S\$358m in FY14 to S\$1,780m in 1H20. The growth in AUM came from SRE's investments, mainly in Australia and Japan.

Going forward, we are positive on SRE given its potential areas of development including its logistics portfolio in

Korea (partnership with IGIS Asset Management), its logistics portfolio in Australia (partnership with Commercial & General), and its recent venture into the office sector in the UK through its acquisition of a property.

SRE's assets are predominantly income-generating and provide a stable stream of cash flow to STC. Despite the COVID-19 pandemic impacting STC's other businesses, SRE's portfolio was the most resilient within the Group, contributing 81% of STC's EBITDA in 1H20.

We estimate SRE's portfolio initial yield to be c.6.5%, and on high-quality, diversified assets. Its assets are diversified across six geographies (Australia, China, Japan, Malaysia, South Korea, and the UK) and four sectors (retail, residential, office, and logistics).

We estimate STC's 89.5% interest in SRE alone to be worth close to STC's current market capitalisation. At its current share price, investors are getting STC's other businesses and investments for "free".

2) The Crown Jewel comes free – Relisting of ARA Asset Management. One of the investments that investors are getting for "free" is STC's interest in ARA which we strongly believe is STC's Crown Jewel.

ARA's Group CEO, Mr John Lim, announced in September 2019 that he was exploring a potential relisting of ARA Asset Management in 2021/2022 and is targeting a valuation range of S\$4-5bn. We believe this will be a strong catalyst for STC's share price.

We estimate ARA's current valuation to be S\$3.8bn and STC's 22.1% stake in ARA to be worth S\$2.06/share. Among ARA's consortium of owners, STC is easily accessible (listed on SGX) and will benefit the most from ARA's relisting as it is the smallest listed player and has one of the largest interests in ARA.

3) Malaysia Smelting Corporation's new smelter to enhance operational efficiencies. MSC is currently in the midst of transitioning to its new smelter in Port Klang and is operating two facilities, incurring higher operating expenses. The new smelter uses a more advanced tin smelting technology that improves yields and efficiency.

We believe MSC's operating margins will improve from 4.2% in FY20F to 6.2% in FY21F once its transition is completed. We expect the margin improvements to come from 1) its cessation of operations at its Butterworth facility, and 2) improvements in yields and efficiency at its new smelter.

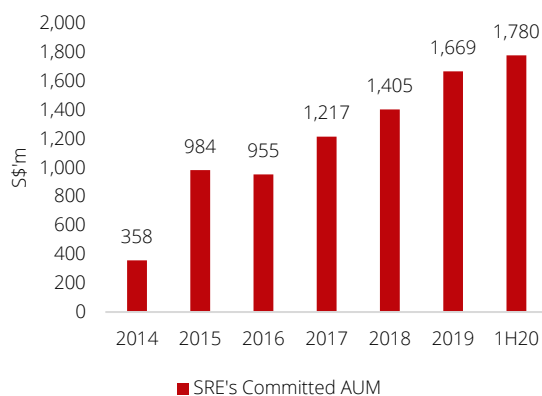
Investment Thesis

1) The Strong, Sturdy Engine – Straits Real Estate (“SRE”)

SRE has grown tremendously; its Assets Under Management (AUM) stood at S\$1.8bn in 1H20. STC has grown its real estate segment tremendously as SRE's committed AUM ballooned from S\$358m in FY14 to S\$1,780m in 1H20, representing a CAGR of 33.9%. The growth in AUM came from SRE's investments, mainly in Australia and Japan. It managed to achieve a return on equity (ROE) of 8.0/11.0% in FY18/19.

Going forward, we are positive on SRE continuing to be a key growth engine as it aims to achieve an AUM of S\$2.4bn by 2022, implying a CAGR of 12.9% from S\$1,669m in FY19. Potential areas of development include its logistics portfolio in Korea (partnership with IGIS Asset Management), its logistics portfolio in Australia (partnership with Commercial & General), and its recent venture into the office sector in the UK through its acquisition of a property.

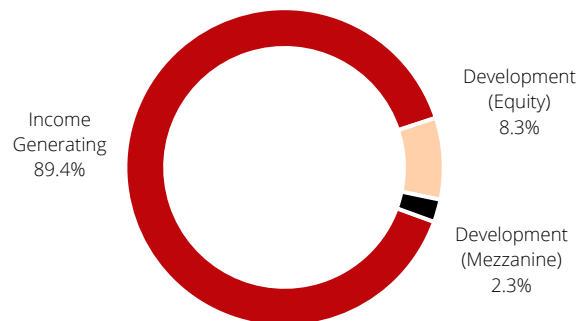
SRE's Committed AUM



Source: Company, DBS Bank

SRE's assets are predominantly income-generating and provide a stable cash flow. SRE practises proactive management of its portfolio, adopting a value-add strategy with a strong focus on recurring income, capturing upside from property enhancements, and riding on improvements in underlying real estate fundamentals. As at 30 June 2020, 89.4% of its portfolio, weighted by asset value, consisted of income-generating assets that provide a stable stream of cash flow to STC.

SRE's Asset Allocation (Income Generating vs Development) *

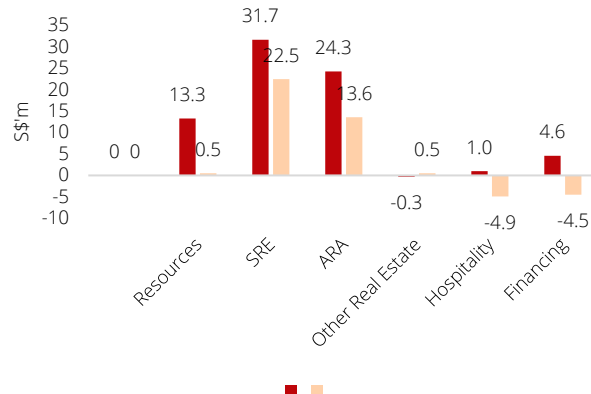


Source: Company, DBS Bank

*Weighted by asset value as of 30 June 2020

Despite the COVID-19 pandemic impacting businesses globally, SRE's portfolio was the most resilient within the Group. Its EBITDA contribution declined 29% y-o-y to S\$22.5m in 1H20, representing 81% of STC's EBITDA.

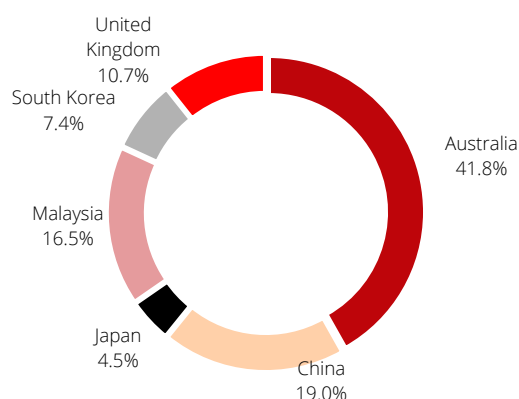
SRE's EBITDA Contribution by Business Segment



Source: Company, DBS Bank

We estimate SRE's portfolio net operating income (NOI) yield to be c.6.5%, and on high-quality, diversified assets. SRE's portfolio of high-quality properties are strategically located and have high occupancies. Furthermore, these assets are well-diversified across six different geographies (Australia, China, Japan, Malaysia, South Korea, and the UK) and span across various sectors such as retail, logistics, residential, and office. Based on our estimates of a c.6.5% NOI yield and the quality of the assets, we believe there is good value in SRE.

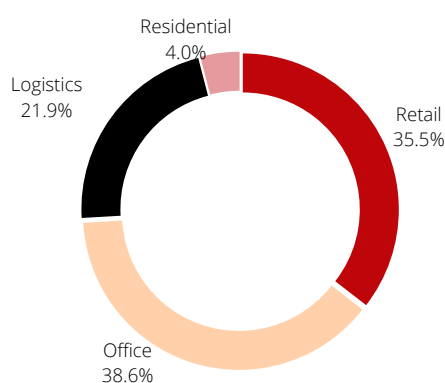
SRE's Asset Exposure by Geography as at end-2020*



Source: Company, DBS Bank Estimates

*Weighted by SRE's pro-rata asset valuation

SRE's Asset Exposure by Sector as at end-2020*



Source: Company, DBS Bank Estimates

*Weighted by SRE's pro-rata asset valuation

Proactive asset recycling strategy to redeploy capital to higher-return real estate assets. SRE actively manages its portfolio and is constantly looking for opportunities to recycle its high-quality but low-yielding assets into high-quality assets with higher returns. In its two latest divestments, SRE disposed of its residential properties in Japan due to cap rate compression, extracting an ROI of 12% for a short holding period of 2-3 years. We like SRE's proactive approach to recycling its assets and are confident of its ability to generate attractive returns given its skill and network.

SRE's Asset Recycling Initiatives

Announcement Date	Asset	Sale (\$'m)	Return	Holding Period (Years)
11 Dec 19	4 residential properties in Osaka	103.2	12.1%	2-3
15 Oct 20	Remaining Japan residential portfolio	244.2	>c.3x	2-3

Source: Company, DBS Bank Estimates

We estimate STC's interest in SRE alone to be worth close to STC's current market capitalisation. We aggregated SRE's interests in several of its properties, associates, joint ventures and projects, and estimate STC's interest in SRE to be S\$920m (or S\$2.26/share), representing 97% of its market capitalisation. We believe that the market valuation of STC merely reflects STC's interest in SRE. At its current share price, investors are getting STC's other businesses and investments for "free".

Breakdown of SRE's Valuation

Component	FY21F Valuation (\$'m)	Value Per Share (\$/share)
RNAV of Investment Properties	569	1.40
RNAV of Associates and JVs	272	0.67
SRE's other non-current assets	220	0.54
SRE's non-current assets	1,060	2.60
SRE's current assets	410	1.01
SRE's liabilities	441	1.08
SRE's RNAV	1,028	2.53
STC's interest in SRE	89.5%	N.A.
STC's worth in SRE	920	2.26

Source: Company, DBS Bank Estimates

2) The Crown Jewel Comes Free – Relisting of ARA Asset Management (ARA)

One of the investments that investors are getting for “free” is STC’s interest in ARA which we strongly believe is STC’s Crown Jewel. In our view, ARA’s relisting will also be a positive catalyst for STC’s share price.

ARA is planning to relist in 2021/2022 with a valuation range of S\$4-5bn. In September 2019, ARA’s Group CEO, Mr John Lim, announced that he was exploring a dual stock market listing, including one in Singapore (relisting). The targeted valuation range is S\$4-5bn and the relisting is expected to be in 2021/2022, once ARA’s transformation is complete.

Goal of S\$100bn AUM achieved; ARA’s relisting is likely to be dependent on market conditions. In November 2016, ARA announced that it wanted to quickly grow its AUM from S\$30bn (as at 30 September 2016) to S\$100bn by 2021. A deeper capital base would allow it to execute its business strategies, which include tapping on growth opportunities through its network of new partners. However, raising substantial capital would require time and be highly dependent on market conditions. As such, it partnered with strategic stakeholders, Warburg Pincus and AVIC Trust, to privatise ARA and boost its access to capital.

By 30 June 2020, ARA had achieved a gross AUM of S\$110bn, ahead of its target of S\$100bn by 2021. We believe ARA’s relisting is imminent and it is waiting for an opportune time to maximise its valuation. In our view, an improvement in market conditions and economic outlook are catalysts for its relisting.

AVIC Trust divested ARA at a valuation of S\$2.75bn in 2Q20; STC’s stake in ARA is worth S\$1.49/share. On 26 May 2020, ARA announced that AVIC Trust, a member of the privatisation consortium in 2017, had sold its entire 20.5% stake in ARA to the other members of the consortium (Warburg Pincus, Straits Trading, JL Investment Group, and CK Asset Holdings). During the disposal, Warburg Pincus absorbed the majority of shares, increasing its stake from 30.7% to 48.7%. STC increased its stake by 1.1%, paying S\$30.2m, implying an equity valuation of S\$2.75bn. Based on this equity valuation, STC’s current stake of 22.1% is worth S\$605m, or S\$1.49/share.

We estimate ARA’s current valuation to be S\$3.8bn; STC’s 22.1% stake in ARA to be worth S\$2.06/share. During its privatisation in 2017, the consortium used two financial metrics to assess its valuation, namely EV/AUM and EV/Forward EBITDA. With an AUM of S\$30bn then, ARA was privatised at S\$1.8bn. This translated into valuations of 6.0% EV/AUM and 18.2x EV/Forward EBITDA based on the analysts’ consensus on Bloomberg then.

In addition to EV/AUM and EV/Forward EBITDA, we included its Forward PE and compared these metrics during its IPO in 2007 and its delisting in 2017. Based on EV/Forward EBITDA of 18.0x, we estimate ARA’s valuation to be S\$3.8bn, and STC’s interest in ARA to be worth S\$806m, or S\$2.06/share.

ARA’s Valuation Based on Precedent Transactions

Date	2007 IPO	2017 Delisting	2Q20 Divestment	2021F
Valuation method	Book-building	EV/AUM, EV/EBITDA	N.A.	EV/EBITDA
AUM (S\$bn)	7.2	30.0	110.0	138.1
EV/AUM	9.3%	6.0%	2.7%	2.7%
EV/Forward EBITDA	16.4x	15.5x*	15.9x	18.0x
1Y Forward P/E	18.2x	18.3x	11.5x	17.2x
Equity Valuation (S\$m)	669	1,775	2,745	3,810
STC’s Interest	0.0%	21.0%	21.0%	22.1%
Equity Value Attributable to STC (S\$m)	N.A.	371.9	605.4	840
Attributable Value to STC in Per Share Terms	N.A.	S\$0.96	S\$1.49	S\$2.06

Source: Company, DBS Bank Estimates

*Consensus was 18.2x during its 2017 privatisation

At this moment, we think that ARA's targeted relisting in 2021/2022 is likely to be between S\$4.0bn and S\$4.5bn. Our target valuation for ARA in FY22F is S\$4.2bn. While this is at the lower-to-middle range of its intended valuation, the amount attributable to STC is still significant, at S\$882-992m or S\$2.17-2.44/share.

Sensitivity Analysis of ARA's 2021/2022 Relisting Valuation

Date	Lower End	Middle	Higher End
Equity Valuation (S\$'bn)	4.0	4.5	5.0
Implied CAGR for ARA's EBITDA since 2019*	8.2%	13.5%	18.4%
Equity Value Attributable to Straits Trading (S\$m)	882	992	1,103
Attributable Value to STC in Per Share Terms	S\$2.17	S\$2.44	S\$2.71

Source: Company, DBS Bank Estimates

*Assuming 18.0x EV/EBITDA

Among the owners of ARA, STC is easily accessible and will benefit the most from ARA's relisting. Firstly, only two of the four remaining owners of ARA are publicly listed – STC and CK Asset Holdings. As such, it is easy to gain exposure to ARA through these two vehicles. Between STC and CK Asset Holdings, STC will be the greater beneficiary because of its larger stake (22.1%) and its smaller market capitalisation.

ARA's Shareholders

Company	Primary Exchange	Market Capitalisation (S\$m)*	Pre-disposal	Post-disposal
Warburg Pincus	N.A.	N.A.	30.72%	48.7%
Straits Trading	Singapore	948	20.95%	22.1%
AVIC Trust	China	7,363	20.48%	0.0%
JL Investment Group	N.A.	N.A.	19.85%	29.2%
CK Asset Holdings	Hong Kong	24,512	8.00%	

Source: Bloomberg Finance L.P., Company, DBS Bank

*As at 01 February 2021

3) Malaysia Smelting Corporation's (MSC) New Smelter to Enhance Operational Efficiencies

MSC's new tin smelting facility will improve its operating margins. MSC acquired a production facility in Pulau Indah, Port Klang, and is currently in the process of relocating its tin smelting business from its existing facility in Butterworth, Penang. Its current facility in Penang is incurring higher cost of sales and operating expenses due to inefficiencies of its aged equipment and older technology. The ISASMELT furnace at its new facility uses a revolutionary Top Submerged Lance (TSL) technology which will replace the traditional reverberatory furnace at its Butterworth factory. Compared with the traditional reverberatory furnace, the process in the ISASMELT furnace does not require extensive feed preparation, reduces losses to slag, and is more energy efficient. This translates into operational efficiency via higher recovery yields, and lower labour and energy costs.

The new facility in Port Klang has 50% more production capacity. Apart from increasing efficiency, the new smelter will also have an annual tin production capacity that is 50% higher than its current smelter at Butterworth as is able to treat larger volumes of feed materials with higher reaction rates. The new production capacity is estimated to be 60,000 tonnes/annum and will incur the same capital costs.

We are expecting a significant uplift in operating margins as it completes the transition in FY21. MSC is currently running both plants as it began its commercial production at the new smelter in Port Klang in 3Q20. Both plants will operate concurrently until operations are smooth in the new plant. We believe this can be achieved in FY21 and are expecting MSC's operating margins to improve from 4.2% in FY20F to 6.2% in FY21F.

Unlocking of land in Butterworth, Penang. On 27 September 2018, MSC signed a Memorandum of Understanding (MOU) with STC to jointly explore options to unlock the value of land owned by both parties in Butterworth, Penang. The land where MSC's tin smelting plant is located spans 13.9 acres, and with STC owning a neighbouring land spanning 26.2 acres, the aggregate land size is 40.1 acres.

4) Strong Share Buybacks and Stable Dividend Payout

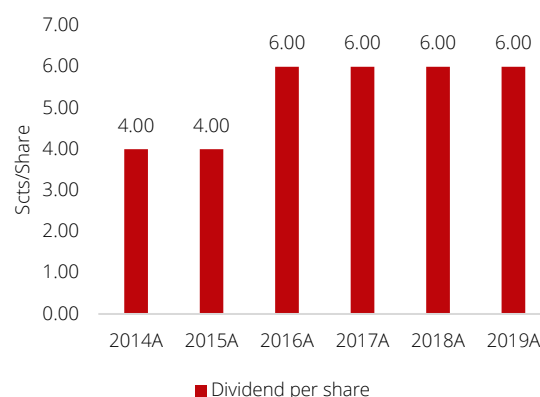
Strong share buybacks that averaged S\$2.10/share. STC began its share buyback in October 2018 and has bought back a total of 1.3m shares since. We estimate the total market value to be S\$2.7m, implying an average price per share of S\$2.10.

Year	Shares Purchased	Market Value (S\$m)	Average Price per Share
2018	291,200	0.6	S\$2.05
2019	638,800	1.5	S\$2.28
2020	346,200	0.6	S\$1.81
Total	1,276,200	2.7	S\$2.10

Source: Company, Bloomberg Finance L.P., DBS Bank Estimates

Stable dividend payout of 6.0 Scts/share. While STC does not have a formal dividend policy, it has been consistently paying out stable dividends. It has paid a stable dividend of 4.0 Scts/share since FY11 (with a special dividend of 50.0 Scts/share in FY13) and increased the amount to 6.0 Scts/share in FY16.

STC's Stable Dividend Payout



Source: Company, DBS Bank

Sufficient cash balance and stable cashflow to continue paying dividends of 6.0 Scts/share. As at 30 June 2020, STC had cash and cash equivalents amounting to S\$260.1m. It recognised a net cash inflow of S\$106.2m from its acquisition of Bourne Business Park (S\$137.9m) and disposal of its Japan residential properties (S\$244.1m). In addition, we believe STC will be able to generate at least S\$40m in EBITDA in the next three years through its stable and reliable real estate ecosystem.

A 6.0 Sct dividend per share aggregates to S\$24.4m in cash and with its high level of cash and stable cash flow, we believe that STC will be able to sustain its dividend payment of 6.0 Scts/share.

Valuation

Deeply undervalued stock; initiate with a BUY recommendation and TP of S\$3.50. We see deep value in STC's investments and believe the market is applying a huge discount due to its complex corporate structure. Our TP of S\$3.50 is based on a SOTP valuation method aggregating its interest in Malaysia Smelting Corporation, Straits Real Estate, ARA, its Property Portfolio, its holdings in Suntec REIT units, and Far East Hospitality Holdings.

Potential upside of 50% despite applying a 40% holding company discount. Since early 2015, the market has been on average, applying a 37.1% discount to STC's reported NAV. We have applied a holding company discount of 40%, which is comparable. Despite such a steep discount, we still arrive at a fair value that represents a 50% upside.

Average Discount to Reported NAV

Year	Average Share Price (S\$)	Average Reported NAV/Share	Average Discount to Reported NAV
2015	2.65	3.22	18.0%
2016	2.01	3.23	37.8%
2017	2.31	3.40	32.0%
2018	2.13	3.58	40.5%
2019	2.16	3.64	40.7%
2020	1.71	3.64	53.1%
Current	2.32	3.56	34.8%
Average	2.16	3.45	37.1%

Source: Company, Bloomberg Finance L.P., DBS Bank

Valuation of STC's Key Components

Component	Relationship	STC's Interest	Valuation Method	Valuation Attributable to STC (S\$m)	Value per Share (S\$)
Malaysia Smelting Corporation	Subsidiary	54.8%	P/E	92.2	0.23
Straits Real Estate	Subsidiary	89.5%	RNAV	920.4	2.26
ARA Asset Management Limited	Associate	22.1%	SOTP, EV/EBITDA	840.4	2.06
STC's Property Portfolio	Investment Properties	N.A.	RNAV	204.5	0.50
Suntec REIT Units	Investment Securities	N.A.	DBS' Target Price	148.4	0.36
Far East Hospitality Holdings	Joint Venture	30.0%	RNAV	166.7	0.41
Total				2,372.4	5.83
40% Holding Company Discount				(949.0)	(2.33)
STC's Valuation				1,423.5	3.50
Current Market Capitalisation				948.7	2.33

Source: Malaysia Smelting Corporation, ARA Asset Management Limited, URA, Bloomberg Finance L.P., Company, DBS Bank Estimates

Valuation of Key Components

Malaysia Smelting Corporation – S\$92.2m (15.0x FY21F PE)

We are projecting operating profit margins to decline from 6.8% in FY19 to 4.2% in FY20 due to disruptions in its operations and heavier operating costs from running both smelters concurrently. We anticipate operating profit margins to improve by 2ppts y-o-y to 6.2% in FY21 as these overhangs are lifted, and expect net profit to increase by 166% to RM25.3m.

We used 15.0x FY21F PE multiple (historical 5-year average) to derive a valuation of RM511.0m, which is a c.39% discount to its current market capitalisation of RM836m. Based on STC's interest of 54.8%, we estimate its stake in MSC to be worth S\$92.2m.

Straits Real Estate – S\$920.4m (RNAV)

We used an RNAV valuation method to derive a fair value of S\$1,028m for SRE. With STC's 89.5% interest in SRE, the valuation attributable to STC is S\$920m. We valued each of SRE's key investment properties, associates, and JVs separately and then aggregated their value to obtain the total revalued assets.

SRE's Key Assets

Key Asset	Type	FY21 Value Attributable to SRE (\$'m)
45 St Georges Terrace, Perth	Investment Property	55
Australia Logistics Portfolio	Investment Property	205
Chongqing Retail Mall	Investment Property	172
Bourne Business Park	Investment Property	136
320 Pitt Street, Sydney	Joint Venture	237
Korean Logistics	Joint Venture	140
Malaysia Retail Portfolio (Harmony III)	Associate	202
Suntec Place – Sanlin Mall	Associate	81
Japan Value Fund II	Associate	60
Project Aspire	Investment Securities	52
Total		1,341

Source: Company, Bloomberg Finance L.P., DBS Bank Estimates

Once we obtained the valuation of its key assets, we then estimated the value of its other assets and liabilities. By subtracting the liabilities from its aggregated assets, we obtained an RNAV valuation of S\$1,028m for SRE.

RNAV Valuation of SRE

Component	Value
Valuation of investment properties	S\$569m
Estimated RNAV of its associates and JVs	S\$272m
Estimated other non-current assets	S\$220m
SRE's non-current assets	S\$1,060
SRE's current assets	S\$410m
SRE's liabilities	S\$441m
SRE's RNAV	S\$1,028m
STC's ownership of SRE	89.5%
STC's worth in SRE	S\$920m

Source: Company, DBS Bank Estimates

ARA Asset Management Limited – S\$840.4m (SOTP)

We used a SOTP valuation method to derive ARA's fair valuation to be S\$3.8bn. With STC's 22.1% interest in ARA, the valuation attributable to STC is S\$840.4m. In our SOTP, we separately valued ARA and its investments in its key associates, Kenedix Inc (20.3%) and Cromwell Property Group (23.6%).

We looked at ARA's precedent transactions in its 2007 IPO, 2017 Privatisation, and 2Q20 AVIC Trust Divestment to value ARA ex-associates/JVs. Based on its precedent transactions, we used a 18.0x FY21 EV/EBITDA to derive a valuation of S\$3.8bn for ARA's ex-associates and JVs.

Valuations for ARA's Ex-Associates/JVs

Calculation	Value
Projected FY21F EBITDA for ARA	S\$173
Applied EV/EBITDA	18.0x
Enterprise value	S\$3,110m
Less: Debt	S\$474m
Less: Minority interest	S\$20m
Add: Cash	S\$334m
Equity valuation	S\$2,950m

Source: ARA Asset Management Limited, Bloomberg Finance L.P., DBS Bank Estimates

We then valued its key associates, Kenedix and Cromwell by applying a 10% discount to the analysts' consensus on Bloomberg. The valuation attributable to ARA is S\$368m for Kenedix and S\$492m for Cromwell.

SOTP Valuation of ARA

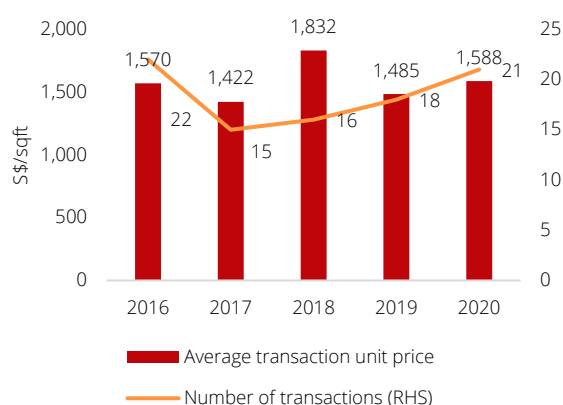
Component	Valuation Method	Valuation (S\$m)
ARA ex-associates/JVs	EV/EBITDA	2,950
Kenedix	Analysts' Consensus	368
Cromwell Property Group	Analysts' Consensus	492
ARA		3,811
STC's 22.1% interest in ARA		840
Value per Share		S\$2.06

Source: ARA Asset Management Limited, Bloomberg Finance L.P., DBS Bank Estimates

STC's Property Portfolio – S\$204.5m (RNAV)

STC's Property Portfolio mainly consists of its Good Class Bungalows ("GCBs") in Singapore (District 10). Its other assets include its condominium units at Gallop Green and its Butterworth Land in Penang.

In 2020, there were 21 transactions for freehold or 999-year leasehold Singapore GCBs located in District 10. The properties were transacted at an average valuation of S\$1,588/sqft of land area. We have assumed a land valuation of S\$1,620/sqft (+2.0% y-o-y) for its GCBs in District 10.

Singapore District 10 Freehold/999 GCB Transactions

Source: URA, DBS Bank

Key Assets Under STC's Property Portfolio

Asset	Valuation (S\$m)
2 units at Gallop Green condominium	15
6A/8/8A/10/12 Cable Road	130
10/10A/10B Nathan Road	79
Butterworth Land, Penang	45
Total	269

Source: URA, Company, DBS Bank Estimates

We estimated the liabilities by subtracting the liabilities under SRE from the liabilities under its Real Estate segment. The fair value obtained for STC's Property Portfolio is S\$205m.

RNAV Valuation of STC's Property Portfolio

Component	Valuation (S\$m)
Property Portfolio value	S\$269m
Estimated total liabilities	S\$64m
Property Portfolio RNAV	S\$205m

Source: Company, DBS Bank Estimates

Far East Hospitality Holdings – S\$167m (RNAV)

As at 31 December 2019, STC reported it had S\$173m in net assets under its Hospitality segment. We separated its assets under its Hospitality segment and assumed a -15% revaluation to its net assets attributable from FEHH.

Straits Real Estate

SRE's Key Assets as at 31 December 2020

Geography	% of SRE's Portfolio*	Sector	% of SRE's Portfolio*	Asset	% of SRE's Portfolio*	FY21 Valuation (\$'m)
Australia	41.8%	Office	21.8%	45 St Georges Terrace, Perth	4.1%	55
				320 Pitt Street, Sydney	17.7%	237
		Logistics	15.3%	Australia Logistics Portfolio	15.3%	205
		Residential (Development)	3.9%	Project Aspire	3.9%	52
China	19.0%	Retail	18.8%	Chongqing Retail Mall	12.8%	172
				Suntec Place – Sanlin Mall	6.0%	81
Japan	4.5%	Office and Others	4.4%	Japan Value Fund II	4.4%	60
Malaysia	16.5%	Retail	15.1%	Malaysia Retail Portfolio (Harmony III)	15.1%	202
South Korea	7.4%	Logistics	10.4%	Korean Logistics Portfolio	10.4%	140
United Kingdom	10.7%	Office	10.2%	Bourne Business Park	10.2%	136
Total						1,341

Source: Company, DBS Bank Estimates

*Weighted by SRE's pro-rata valuation

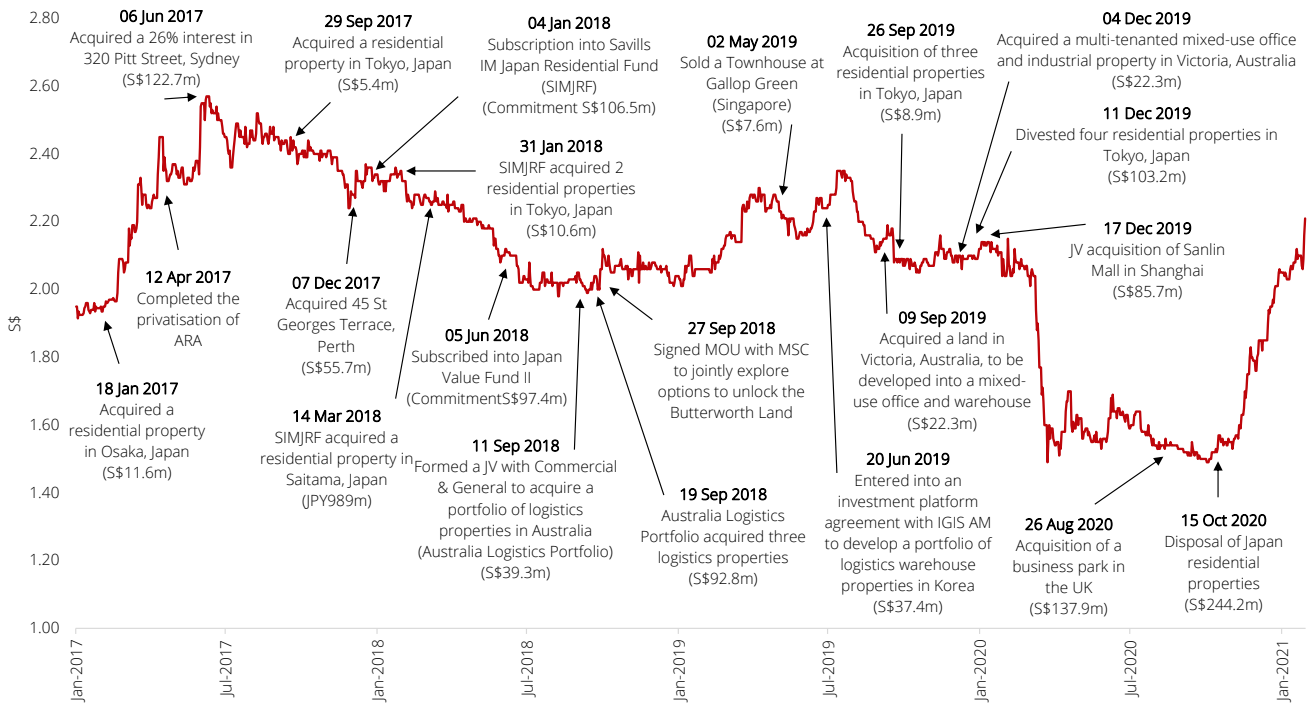
SRE's Capital Commitments since 2017

Date	Fund Name	Fund Mandate	Capital Commitment (\$'m)
04 Jan 2018	Savills IM Japan Residential Fund	Acquire residential properties located in the Greater Tokyo area and other key markets in Japan	106.5m (JPY9bn)
05 Jun 2018	Japan Value Fund II	Acquire office assets in the Greater Tokyo area and other cities in Japan	97.4 (JPY8.0bn)
20 Jun 2019	Investment Platform Agreement ("IPA") with IGIS Asset Management	Develop a portfolio of logistics warehouse properties in South Korea	121.2 (KRW104.2bn)

Source: Company, DBS Bank

Straits Trading's Key Corporate Actions

STC's Key Corporate Actions vs Share Price

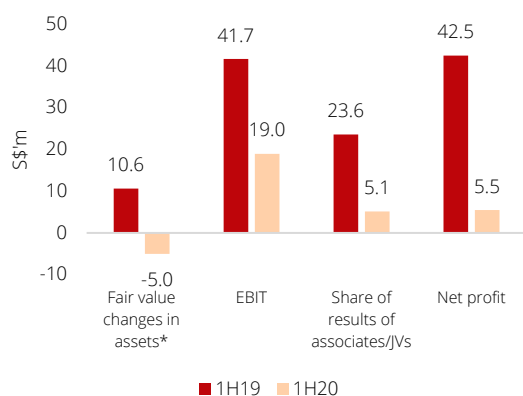


Source: Company, DBS Bank

Key Risks

Potential fair value losses on its Real Estate segment due to COVID-19. Governments around the world have implemented lockdowns or movement restriction orders to contain the COVID-19 pandemic. Many industries and businesses have been disrupted. In the real estate industry, the retail, office, and hospitality sectors were negatively impacted at the onset of the virus. As a result, its retail mall properties in China and Malaysia recorded fair value losses in 1H20.

Changes in fair value has a substantial impact on the Group's net profit



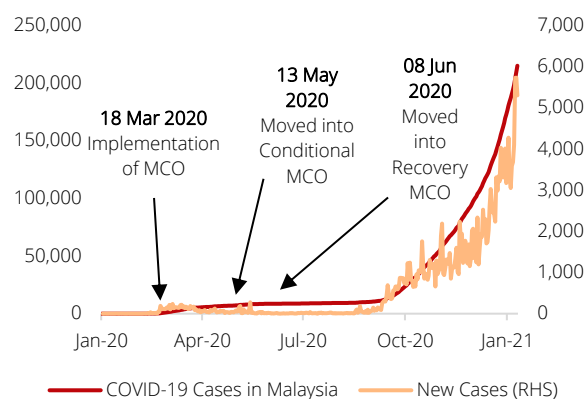
Source: Company, DBS Bank

*Consists of financial assets and investment properties

Lower tin prices. The Group is exposed to commodity price risk on revenue for sales of tin as well as production cost for fuel consumed in the operations. MSC manages the commodity price risk on revenue for sales of tin through contractual arrangements with customers and forward commodity contracts.

Operational disruption in its Resources business due to COVID-19. In 1H20, MSC reported a net loss of RM12.3m due to reduced activities and lower tin prices. The reduced activities were due to the Movement Control Order ("MCO") imposed by the Malaysian Government resulting in disruptions to its operations. However, MSC was able to gradually transition from a staggered basis and resumed full operations on 28 April 2020. Its performance rebounded in 3Q20 to record a net profit of RM12.5m, as operations normalised with a full workforce.

Malaysia's COVID-19 Cases Rise



Source: Company, DBS Bank

*Consists of financial assets and investment properties

Its Hospitality segment could record operational losses or fair value losses due to COVID-19. As a result of a plunge in tourist arrivals due to border control measures globally, the hospitality sector has been negatively impacted. STC's Hospitality segment reported a loss for 1H20 due to weak operations and revaluation losses on certain hotel properties, and impairment charges. Although the distribution of vaccines has begun, we do not expect leisure travel to resume in the near future given the time needed to produce the vaccine and other challenges (efficacy, logistics, and safety concerns).

Foreign currency exchange risk. The Group operates mainly in Asia Pacific and has exposure to foreign exchange risk as a result of sales or purchase transactions that are denominated in a currency other than the functional currencies of the respective Group entities. Its exposures are mainly in USD, AUD, SGD, and JPY. The Group uses forward currency contracts to manage its foreign currency exposures and undertakes loans in foreign currencies to hedge its exposure to foreign exchange risk on its investments in foreign operations.

SWOT Analysis

Strengths	Weakness
<ul style="list-style-type: none"> • Well-connected majority shareholder. The Tecity Group (Tecity) is a Singapore-based investment firm, founded by the late banker and philanthropist Tan Sri (Dr) Tan Chin Tuan, who was widely credited with building OCBC into a major financial group in Singapore. Tecity acquired a majority stake in STC in April 2008 and currently has a shareholding of 70.19%. After Tecity's takeover, STC was able to grow its real estate portfolio (SRE, ARA, and FEHH) tremendously. • Consistent dividend payouts. STC has been paying dividends of 6.0 Scts/share per annum since FY16, and 4.0 Scts/share per annum since FY11. In FY13, it declared a special dividend of 50.0 Scts/share after selling off WBL Corporation for S\$508.8m. • Strong share buybacks. STC shares are trading at a c.40% discount to its last reported net asset value (NAV) per share (S\$3.56/share as at 30 June 2020). It believes that its share price is undervalued and has bought back c.S\$2.7m worth of shares since October 2018 at an average purchase price of S\$2.10. 	<ul style="list-style-type: none"> • Conglomerate discount (information asymmetry). STC is an investment holding company with stakes in various industries (Resources, Real Estate, and Hospitality). Furthermore, many of these investments are privately held companies, resulting in information asymmetry between the market and management. As such, the market price has factored in an average conglomerate discount to its reported NAV of 37.1% since 2015. • Lack of understanding due to its complex corporate structure. As STC begins to grow its Real Estate segment, it has incorporated and used different vehicles that will allow it to achieve its best intended results.
Opportunities	Threats
<ul style="list-style-type: none"> • Potential relisting of ARA in 2021/2022. ARA's Group CEO, Mr John Lim, has indicated that ARA is exploring a potential relisting on the Singapore Exchange, with a possible dual listing on another exchange in 2021/2022 once ARA's transformation is completed. He is targeting a valuation range of S\$4-5bn. ARA has increased its AUM at a CAGR of c.29% from S\$26.7bn in 2014 to S\$110bn in mid-2020. Since its privatisation in 2017, its AUM has grown at a CAGR of 49.9%. • Growing real estate investment arm. SRE, STC's real estate investment arm, has continuously expanded and recycled its portfolio and has grown its committed AUM at a CAGR of c.34% from 2014 to 1H20. As at 30 June 2020, it has a committed AUM of S\$1.78bn and is intending to grow this figure to S\$2.4bn by 2022. • The new smelter in Pulau Indah, Klang, has higher production capacity and efficiency. MSC's new tin smelter is equipped with a technologically advanced smelting process (ISASMELT), which has higher recovery yields, reduced feed preparation, and lower manning costs. In addition, the new smelting facility has 50% more production capacity compared to its smelter at Butterworth. 	<ul style="list-style-type: none"> • Potential fair value losses on its Real Estate segment. The COVID-19 pandemic has resulted in certain sectors being impacted and as a result, some of its properties may face impairments or revaluation losses. • Lower tin prices. The Group is exposed to commodity price risk on revenue for its sale of tin as well as production cost for the fuel consumed in its operations. • Operational disruption to its Resources business. In 1H20, its subsidiary, MSC, reported a net loss due to business disruptions and lower tin prices. • Hospitality business impacted by COVID-19. The outbreak of COVID-19 has severely impacted the hospitality and tourism industry as individuals reduce time spent in public places. A worsening of the outbreak could prolong its negative impact on STC's 30%-owned associate, FEHH, which is a premier hotel owner and operator in Singapore and Australia. • Foreign exchange risks. MSC's business transactions and borrowings are denominated in foreign currencies, which are primarily in USD and SGD.

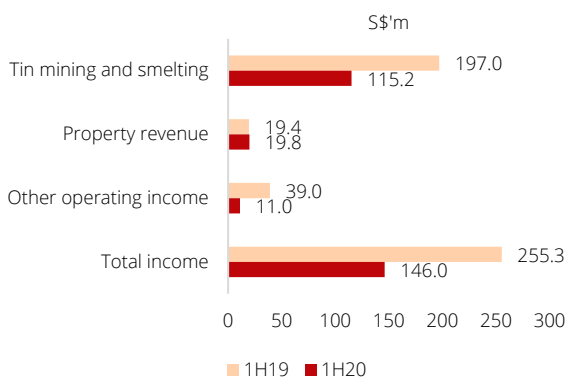
Source: DBS Bank

Financials

Income Statement

Total income in 1H20 declined 41.2% to S\$146.9m. Total income from different sources generally declined due to COVID-19. Revenue from tin mining and smelting, its largest contributor at 78.9% in 1H20, declined 41.5% y-o-y to S\$115.1m due to disruptions in the supply chain for tin and lower tin prices. Property revenue held stable while other operating income declined 42.8% y-o-y, largely as a result of lower interest income from the notes issued by a joint venture.

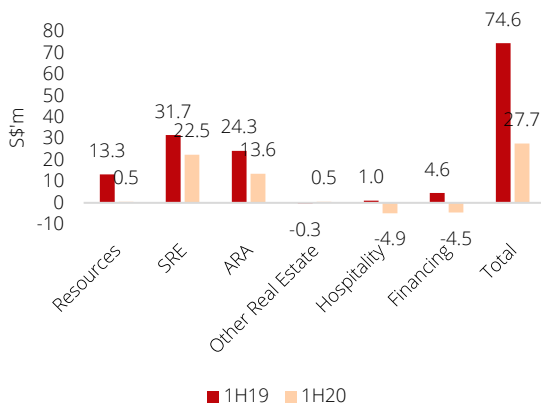
STC's Total Income Attribution



Source: Company, DBS Bank

1H20 EBITDA declined 62.9% y-o-y to S\$27.7m. The decline was largely due to a decline in the performance of its Resources, Hospitality, and Group financing operations, which were disrupted by COVID-19. While EBITDA contributions from SRE and ARA declined, the declines were not as substantial.

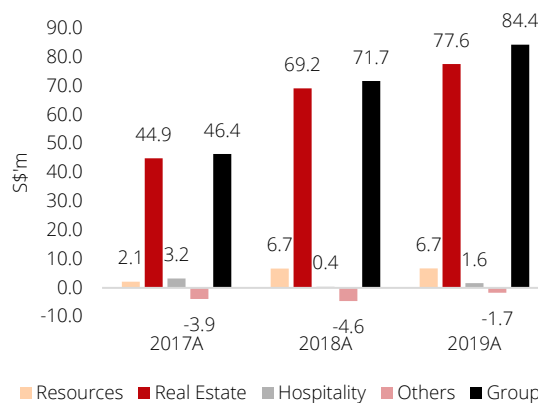
STC's EBITDA Attribution by Business Segment



Source: Company, DBS Bank

c.95% of its profit after tax is from its Real Estate segment. STC has grown its real estate segment tremendously and in the last three years, it has contributed 92-97% of STC's profit after tax. Its main contributors to its Real Estate segment are SRE, ARA and its property portfolio.

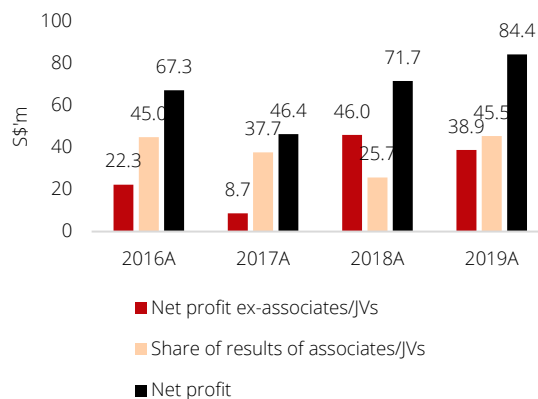
STC's Profit After Tax by Segment



Source: Company, DBS Bank

Significant contribution from associates and JVs. STC's key associates and JVs include ARA, several investments under SRE, and FEHH. The results from its associates and JVs are generally relatively stable and contribute a sizeable portion to STC's net profit.

Associates and JVs Account for a Large Share of Net Profit

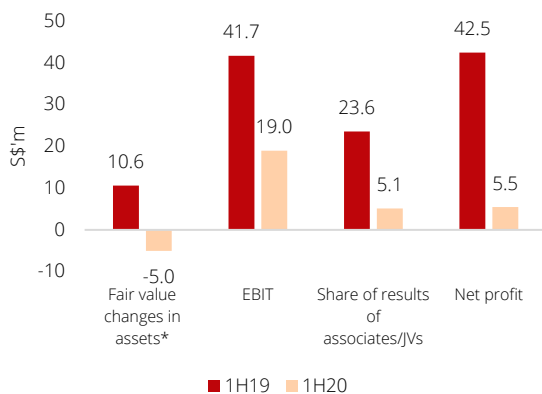


Source: Company, DBS Bank

The Straits Trading Company Ltd

Revaluations can have a substantial impact on its results from associates/JVs and its net profit. In 1H20, the pandemic resulted in lower valuations for its retail mall in China, retail mall portfolio in Malaysia, and hospitality business. Hence its share of results from associates and JVs and net profit declined 78.3% and 87.1% respectively in 1H20.

Changes in fair value have a substantial impact on the Group's net profit



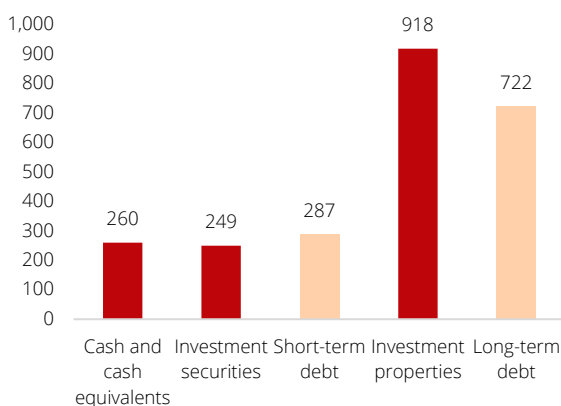
Source: Company, DBS Bank

*Consists of financial assets and investment properties

Balance Sheet

Cash and cash equivalents of S\$260m, total debt of S\$1bn. As at 30 June 2020, STC had S\$509m in liquid assets, comprising S\$260m in cash and cash equivalents, and S\$249m in investment securities. It had total borrowings amounting to S\$1.0bn, with S\$287m being short-term. We believe that STC's debt levels are manageable given its assets collateralise 141.5% of its total debt.

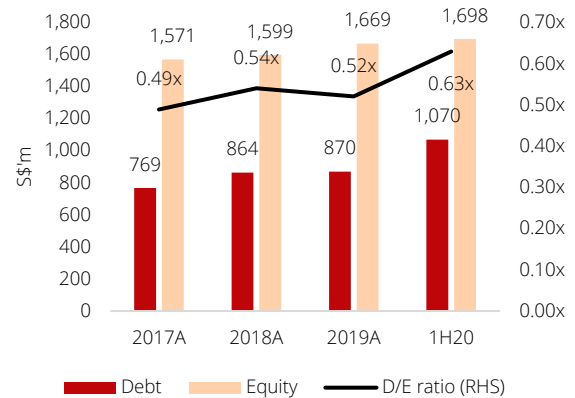
STC's Cash and Debt Position (as at 30 June 2020)



Source: Company, DBS Bank

D/E ratio between 0.5x and 0.6x. While STC's D/E ratio had increased to 0.62x in 1H20, it has been relatively stable. We believe this is manageable given that it is able to generate positive operating cash flows, and its gearing is within the industry average.

Borrowings, Shareholders' Equity, and D/E Ratio

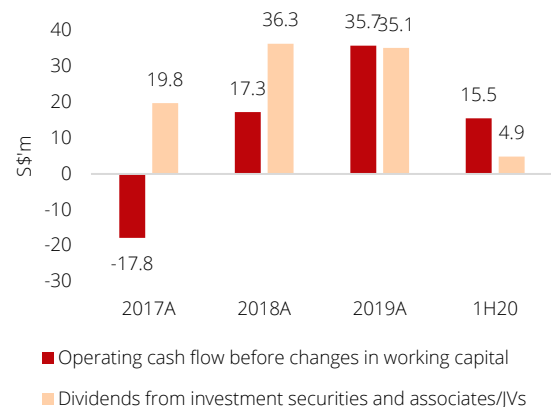


Source: Company, DBS Bank

Cash Flow

Cash flow generation through its operations and investments. STC is able to generate operational cash flow from two of its key subsidiaries, MSC and SRE, and its investment property portfolio. In addition, with its large investments, STC is able to receive substantial dividends from its investment securities, associates, and joint ventures.

Strong Cash Flows from Operations and Dividends

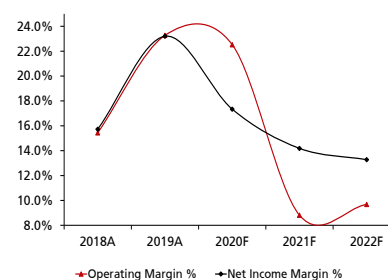


Source: Company, DBS Bank

Income Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Revenue	474	456	364	306	405	417
Cost of Goods Sold	(423)	(380)	(272)	(224)	(310)	(318)
Gross Profit	50.3	76.2	91.9	82.9	95.6	98.2
Other Opng (Exp)/Inc	(16.5)	(5.8)	(7.3)	(13.9)	(59.9)	(57.8)
Operating Profit	33.8	70.4	84.6	69.0	35.7	40.3
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	37.7	25.7	45.5	29.6	46.5	51.3
Net Interest (Exp)/Inc	(22.8)	(27.2)	(27.7)	(31.0)	(33.8)	(33.3)
Exceptional Gain/(Loss)	8.66	30.7	26.9	5.94	31.2	18.2
Pre-tax Profit	57.5	99.7	129	73.5	79.6	76.6
Tax	(5.9)	(17.0)	(29.0)	(12.3)	(13.3)	(12.8)
Minority Interest	(5.2)	(11.0)	(16.0)	(8.1)	(8.8)	(8.5)
Preference Dividend	0.0	0.0	0.0	0.0	0.0	0.0
Net Profit	46.4	71.7	84.4	53.1	57.5	55.3
Net Profit before	37.8	41.0	57.5	47.2	26.3	37.1
EBITDA	77.2	103	138	107	91.4	101
Growth						
Revenue Gth (%)	(7.8)	(3.7)	(20.3)	(15.7)	32.2	2.8
EBITDA Gth (%)	(34.8)	33.1	34.6	(22.3)	(14.9)	10.7
Opg Profit Gth (%)	(50.8)	108.1	20.3	(18.5)	(48.3)	12.9
Net Profit Gth (Pre-ex)	(43.3)	8.5	40.3	(17.9)	(44.2)	40.9
Margins & Ratio						
Gross Margins (%)	10.6	16.7	25.3	27.0	23.6	23.6
Opg Profit Margin (%)	7.1	15.4	23.3	22.5	8.8	9.7
Net Profit Margin (%)	9.8	15.7	23.2	17.3	14.2	13.3
ROAE (%)	3.3	4.9	5.7	3.5	3.7	3.5
ROA (%)	2.0	2.9	3.2	1.9	2.0	1.9
ROCE (%)	0.7	0.6	1.2	0.6	(0.3)	0.1
Div Payout Ratio (%)	52.7	34.1	29.0	46.0	42.5	44.2
Net Interest Cover (x)	1.5	2.6	3.1	2.2	1.1	1.2

Margins Trend



Increase in other operating expenses is due to a decline in interest income contribution from a notes issued by a joint venture

We are forecasting exceptional gains due to fair value gains on its investment properties

Decline in contribution as its associates/JVs record fair value losses on their properties and due to an impact on net profits from COVID-19

Source: Company, DBS Bank

Quarterly Income Statement (S\$m)

FY Dec	3Q2018	4Q2018	1Q2019	2Q2019	3Q2019	4Q2019
Revenue	111	105	111	105	77.3	70.0
Cost of Goods Sold	(48.1)	(80.5)	(89.8)	(83.8)	(91.7)	(50.1)
Gross Profit	63.1	24.2	21.2	21.6	(14.4)	19.9
Other Oper. (Exp)/Inc	(43.6)	(9.5)	(5.6)	4.53	39.1	1.13
Operating Profit	19.5	14.7	15.6	26.1	24.6	21.0
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	7.73	4.20	13.6	10.0	3.77	18.1
Net Interest (Exp)/Inc	(6.9)	(7.1)	(6.9)	(7.2)	(6.8)	(6.8)
Exceptional Gain/(Loss)	1.44	10.1	0.0	5.65	0.93	17.5
Pre-tax Profit	21.8	22.0	22.3	34.6	22.6	49.9
Tax	(5.5)	(3.2)	(3.7)	(5.7)	(4.9)	(14.8)
Minority Interest	(2.3)	(4.7)	(1.4)	(3.7)	(5.5)	(5.4)
Net Profit	14.0	14.1	17.3	25.3	12.2	29.7
Net profit bef Except.	12.6	4.03	17.3	19.6	11.2	12.2
EBITDA	27.2	18.9	29.2	36.2	28.4	39.1

Growth

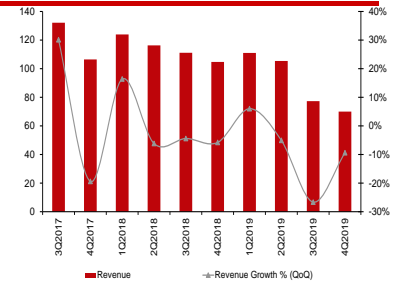
Revenue Gth (%)	(4.4)	(5.8)	6.0	(5.1)	(26.7)	(9.4)
EBITDA Gth (%)	(20.3)	(30.4)	54.3	23.9	(21.4)	37.8
Opg Profit Gth (%)	(25.8)	(24.4)	5.9	67.7	(5.7)	(14.7)
Net Profit Gth (Pre-ex)	(34.8)	(68.0)	328.7	13.6	(42.7)	8.1

Margins

Gross Margins (%)	56.7	23.1	19.1	20.5	(18.7)	28.4
Opg Profit Margins (%)	17.5	14.1	14.0	24.8	31.9	30.0
Net Profit Margins (%)	12.6	13.5	15.6	24.0	15.7	42.4

Source: Company, DBS Bank

Revenue Trend



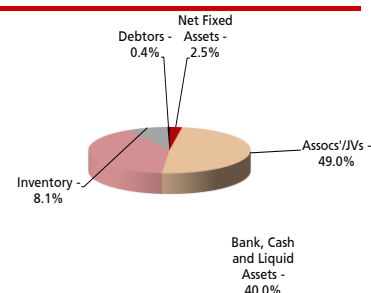
Interim Income Statement (\$m)

FY Dec	2H2H	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	239	240	216	216	147	135
Cost of Goods Sold	(218)	(208)	(129)	(174)	(142)	(103)
Gross Profit	20.9	32.6	87.3	42.8	5.45	31.5
Other Oper. (Exp)/Inc	(9.8)	2.78	(53.1)	(1.1)	40.2	(12.6)
Operating Profit	11.1	35.3	34.2	41.7	45.7	19.0
Other Non Opg	0.0	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	12.1	13.8	11.9	23.6	21.9	5.13
Net Interest (Exp)/Inc	(12.5)	(12.4)	(13.9)	(14.1)	(13.6)	(13.8)
Exceptional Gain/(Loss)	9.25	19.2	11.5	5.65	18.5	(0.8)
Pre-tax Profit	20.0	55.9	43.8	56.9	72.4	9.51
Tax	(2.6)	(8.4)	(8.6)	(9.3)	(19.6)	(3.6)
Minority Interest	0.21	(4.0)	(7.0)	(5.0)	(11.0)	(0.4)
Net Profit	17.7	43.6	28.1	42.5	41.9	5.49
Net profit bef Except.	8.41	24.4	16.6	36.9	23.4	6.29
EBITDA	23.2	49.1	46.1	65.3	67.6	24.1
Growth						
Revenue Gth (%)	1.5	0.7	(10.1)	0.2	(31.9)	(8.3)
EBITDA Gth (%)	(53.5)	111.4	(6.1)	41.7	3.4	(64.3)
Opg Profit Gth (%)	(54.5)	218.4	(3.3)	22.1	9.4	(58.4)
Net Profit Gth (%)	(42.0)	146.9	(35.5)	51.2	(1.6)	(86.9)
Margins						
Gross Margins (%)	8.8	13.6	40.4	19.8	3.7	23.3
Opg Profit Margins (%)	4.7	14.7	15.8	19.3	31.0	14.1
Net Profit Margins (%)	7.4	18.2	13.0	19.7	28.4	4.1

Source: Company, DBS Bank

Balance Sheet (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Net Fixed Assets	55.8	38.3	43.6	40.1	36.1	31.6
Invt in Associates & JVs	789	774	792	786	797	812
Other LT Assets	886	1,209	1,172	1,114	1,144	1,162
Cash & ST Invt	439	294	376	708	660	655
Inventory	155	163	153	130	180	185
Debtors	5.28	8.80	5.53	5.74	8.05	8.28
Other Current Assets	103	90.2	107	107	107	107
Total Assets	2,434	2,576	2,649	2,890	2,932	2,961
ST Debt	216	247	210	258	253	250
Creditor	70.1	75.3	54.6	53.4	74.0	76.1
Other Current Liab	8.03	8.23	9.57	15.8	16.8	16.3
LT Debt	553	617	660	812	795	786
Other LT Liabilities	16.0	29.8	45.6	45.6	45.6	45.6
Shareholder's Equity	1,478	1,467	1,519	1,547	1,580	1,611
Minority Interests	93.3	131	150	158	167	176
Total Cap. & Liab.	2,434	2,576	2,649	2,890	2,932	2,961
Non-Cash Wkg. Capital	185	178	202	174	205	208
Net Cash/(Debt)	(329)	(571)	(494)	(362)	(389)	(382)
Debtors Turn (avg days)	16.5	5.6	7.2	6.7	6.2	7.2
Creditors Turn (avg)	71.0	71.1	89.9	91.8	77.4	88.7
Inventory Turn (avg)	119.9	155.3	218.6	240.5	188.2	215.7
Asset Turnover (x)	0.2	0.2	0.1	0.1	0.1	0.1
Current Ratio (x)	2.4	1.7	2.3	2.9	2.8	2.8
Quick Ratio (x)	1.5	0.9	1.4	2.2	1.9	1.9
Net Debt/Equity (X)	0.2	0.4	0.3	0.2	0.2	0.2
Net Debt/Equity ex MI	0.2	0.4	0.3	0.2	0.2	0.2
Capex to Debt (%)	(4.0)	37.3	(4.8)	(5.5)	0.4	0.5

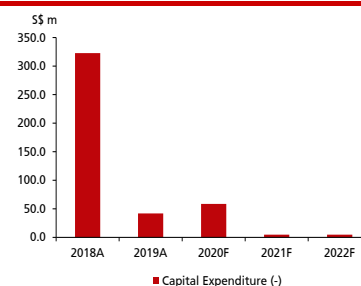
Asset Breakdown

Source: Company, DBS Bank

Cash Flow Statement (\$m)

FY Dec	2017A	2018A	2019A	2020F	2021F	2022F
Pre-Tax Profit	57.5	99.7	129	73.5	79.6	76.6
Dep. & Amort.	5.63	6.62	8.08	8.82	9.21	9.60
Tax Paid	(12.0)	(8.0)	(9.2)	(6.1)	(12.3)	(13.3)
Assoc. & JV Inc/(loss)	(37.7)	(25.7)	(45.5)	(29.6)	(46.5)	(51.3)
Chg in Wkg.Cap.	(16.0)	(9.9)	(7.9)	21.8	(31.7)	(3.3)
Other Operating CF	(31.2)	(55.3)	(46.9)	(5.9)	(31.2)	(18.2)
Net Operating CF	(33.8)	7.40	27.9	62.5	(33.0)	0.10
Capital Exp.(net)	31.1	(323)	41.9	58.6	(4.7)	(4.7)
Other Invts.(net)	(2.4)	59.3	(17.4)	0.0	0.0	0.0
Invts in Assoc. & JV	(86.6)	14.2	10.9	0.0	0.0	0.0
Div from Assoc & JV	19.8	36.3	35.1	35.4	35.5	36.1
Other Investing CF	43.1	4.80	(1.4)	0.0	0.0	0.0
Net Investing CF	5.01	(208)	69.2	94.0	30.9	31.4
Div Paid	(28.9)	(27.2)	(29.3)	(24.4)	(24.4)	(24.4)
Chg in Gross Debt	139	105	8.44	200	(21.7)	(12.1)
Capital Issues	1.81	(0.6)	(1.5)	(0.6)	0.0	0.0
Other Financing CF	(10.3)	5.82	(8.8)	0.0	0.0	0.0
Net Financing CF	101	82.5	(31.1)	175	(46.1)	(36.6)
Currency Adjustments	(1.1)	0.52	(0.3)	0.0	0.0	0.0
Chg in Cash	71.4	(118)	65.6	332	(48.2)	(5.0)
Opg CFPS (S cts)	(4.4)	4.23	8.78	10.0	(0.3)	0.82
Free CFPS (S cts)	(0.7)	(77.3)	17.1	29.8	(9.2)	(1.1)

Source: Company, DBS Bank

Capital Expenditure

The Straits Trading Company Ltd

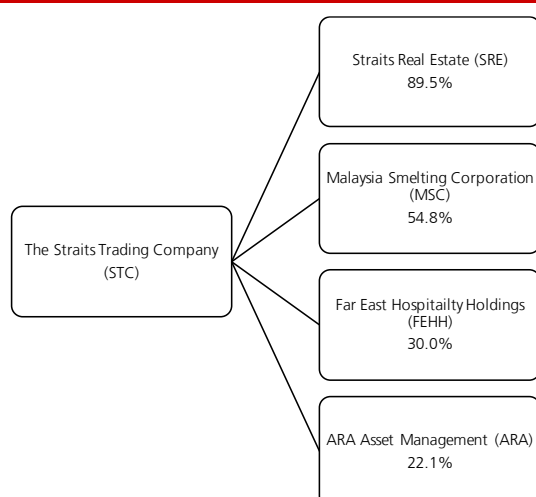
Company Background

Company Background

The Straits Trading Company Limited (STC) was incorporated in Singapore in 1887 and is an investment company with diversified interests across Asia Pacific in real estate, hospitality, and resources.

Its notable and key investments include Straits Real Estate Pte Ltd (SRE), Malaysia Smelting Corporation Bhd (MSC), Far East Hospitality Holdings Pte Ltd (FEHH), and ARA Asset Management Limited (ARA).

Key Subsidiaries, Associates, and JVs



Source: Company, DBS Bank

Company History

1887s to 1930s – Began as a tin smelting company. STC was first established as a tin smelting company in 1887 as it opened its first large smelting plant in Pulau Brani, Singapore. It later expanded its operations into Malaysia through its acquisition of a second smelting plant in Butterworth, Penang, in 1902.

1960 to 1980s – Established its property development business and transfer of its tin operations. In 1960, STC formed its property division which began its journey to diversification. MSC, which STC then held a 58% interest, took over STC’s smelting business in 1982.

1990s to 2000s – Ventured into hospitality, expanded into upstream tin operations, and Tecity’s takeover. STC entered the hospitality business when Rendezvous Hotels International Private Limited took over the management of the Observation City Hotel in Perth, Australia. MSC

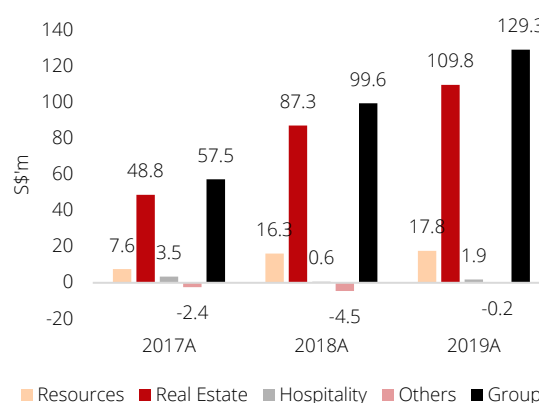
expanded into the exploration and mining of tin through its acquisition of Rahman Hydraulic Tin Sdn Bhd (RHT). In 2008, Tecity Group (Tecity) acquired a majority stake in STC and has a 74.14% deemed interest in STC (as of 16 March 2020).

2009 to present – Growing of hospitality and real estate business. STC acquired a 20.95% stake in ARA, co-established SRE, and formed FEHH through a 30-70 joint venture with Far East Orchard, with STC owning 30%. In May 2020, STC increased its stake in ARA to 22.1% after AVIC Trust divested its 20.48% stake in ARA. At present, STC centres its business focus on its real estate ecosystem.

Business Operations

STC has three main operating segments: **(1) Resources**, **(2) Real Estate**, and **(3) Hospitality**. Its real estate business is its main contributor to profit before tax, accounting for 85% in FY19.

STC’s Profit Before Tax Attribution by Business Segments



Source: Company, DBS Bank

(1) Resources – Upstream and downstream tin operations.

Its Resources Business, which includes tin mining and tin smelting, are conducted through MSC, its 54.8%-owned subsidiary. MSC is the third-largest supplier of tin metal on a global scale, producing 25,752 tonnes of tin metal in 2019.

- **Tin mining:** Includes the exploration and mining of tin, which are conducted in Malaysia, principally through MSC’s subsidiary, RHT. The extracted tin ores are sold to MSC at an arm’s length transaction and represents c.8-9% of MSC’s input.

The Straits Trading Company Ltd

- **Tin smelting:** Includes the smelting of tin concentrates and tin bearing materials, the production of various grades of refined tin metal, and the sale and delivery of refined tin metal and by-products.

(2) Real Estate – Property investment and real estate fund management. STC’s real estate business comprises mainly SRE and ARA.

- **SRE:** SRE is an 89.5-10.5 joint venture between STC and John Lim, who is the co-founder and CEO of ARA, with STC owning the lion’s share. SRE invests in properties as well as property platforms in both private and public markets.
- **ARA:** STC currently has a 22.1% interest in ARA, which is involved in private fund management, REIT management, real estate management services, and infrastructure on a global scale.

(3) Hospitality – Hotel ownership and management services. STC’s hospitality business is conducted through FEHH, which is a 30-70 joint venture between STC and Far East Orchard, with STC owning a 30% stake.

- **FEHH:** FEHH is a premier hotel owner and operator with nine brands spanning across seven countries. Its key markets are Singapore and Australia.

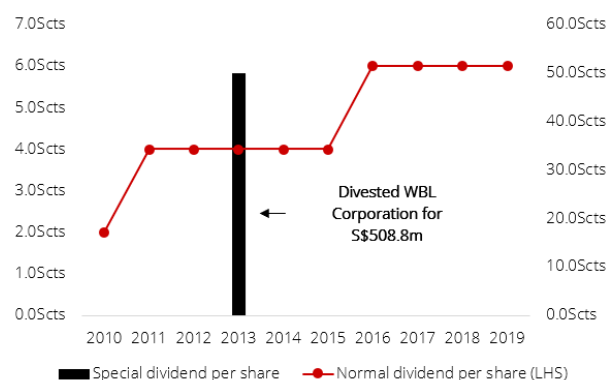
Supply Chain

Two major customers accounted for 26.2% of FY19 Resources revenue. STC has two major customers which are from its Resources segment. They contributed 27.6/23.4% of STC’s FY18/19 revenue.

Dividend Policy

Stable and growing dividends with no formal dividend policy. While STC has no formal dividend policy, it aims to work towards a “fair and sustainable” dividend policy. It has been paying out dividends of 6.0 Scts/share since FY16.

STC’s Historical Dividend Payout



Source: Bloomberg Finance L.P., Company, DBS Bank

Management & Strategy

Key Management Team

Name	Background and Experiences
<p>Chew Gek Khim <i>Executive Chairman</i> <i>Straits Trading</i></p>	<p>Ms Chew graduated from the National University of Singapore in 1984 and is a lawyer by training. She has been the Chairman of Straits Trading since April 2008, initially as a non-executive and non-independent Chairman, transitioning to an executive role in November 2009.</p> <p>She is also the Executive Chairman of Tecity Group, Malaysia Smelting Corporation, and ARA Trust Management (Suntec) Limited, and sits on the Boards of ARA Asset Management Holdings Pte Ltd and Singapore Exchange Limited.</p>
<p>Desmond Tang <i>Chief Executive Officer</i> <i>Straits Real Estate</i></p>	<p>Mr Tang has a Bachelor of Science (Honours) degree in Real Estate from the National University of Singapore, and a Master of Applied Finance from Macquarie University. He has over 27 years of experience in real estate investment and management. Mr Tang was previously the Managing Director and co-founding partner at GrowthPath Capital Pte Ltd, a real estate investment management and advisory firm.</p> <p>Other former posts include being the Co-Head and Managing Director of Alpha Investment Partners, the real estate fund management unit of Keppel Land, as well as the Director of Fund Management with Prudential's Asia real estate arm, GRA (Singapore) Pte Ltd.</p>
<p>Paul Yi <i>Chief Investment Officer</i> <i>Straits Real Estate</i></p>	<p>Mr Yi holds a Master of Business Administration and a Bachelor of Science degree from the Pennsylvania State University. He has over 20 years of experience in real estate investment and management across various geographies, asset classes, and products.</p> <p>Prior to joining SRE, Mr Yi held concurrent roles as the Head of Investments for ARA Private Funds and CEO of ARA Managers (Asia Dragon II) Pte Ltd. As the Head of Investments, he was responsible for the investment activities of ARA's fund management business across Asia and Australia. As the CEO of ARA Managers (Asia Dragon II) Pte Ltd, he was responsible for managing a pan-Asian opportunistic fund focusing on investments primarily in China, Hong Kong, Singapore, and Malaysia.</p>

Source: Company, DBS Bank

Business Strategy

Straits Real Estate (SRE). Aims to continue growing its AUM from S\$1,780m in 1H20 to S\$2.4bn by 2022. Its strategy is to focus on diversification within the value-added space and currently has investments that span across six geographies (Australia, China, South Korea, Malaysia, Japan, and the UK) and various sectors (office, logistics, retail, and residential).

ARA. As at 30 June 2020, ARA had achieved an AUM of S\$110bn, ahead of its goal of achieving an AUM of S\$100bn by 2021. Its group CEO had announced a possible relisting in 2021/2022 and is expecting a valuation range of S\$4-5bn.

Malaysia Smelting Corporation (MSC). MSC believes that tin is a resurgent industry as the technology sector drives demand for tin. It is currently transitioning to its new smelter in Port Klang which uses a more technologically advanced smelting process. It is expected to reap operational efficiencies through higher recovery yields, and lower labour and energy costs. In addition, the new facility is estimated to have an annual production capacity of 60,000 tonnes/annum, which is 50% higher than its current smelter.

Far East Hospitality Holdings (FEHH). FEHH intends to achieve 123 properties and more than 19,000 rooms by 2021, and 150 properties/30,000 rooms by 2023.

DBS Bank recommendations are based on Absolute Total Return* Rating system, defined as follows:

STRONG BUY (>20% total return over the next 3 months, with identifiable share price catalysts within this time frame)

BUY (>15% total return over the next 12 months for small caps, >10% for large caps)

HOLD (-10% to +15% total return over the next 12 months for small caps, -10% to +10% for large caps)

FULLY VALUED (negative total return, i.e., > -10% over the next 12 months)

SELL (negative total return of > -20% over the next 3 months, with identifiable share price catalysts within this time frame)

*Share price appreciation + dividends

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