

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 Mar 2021

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BUY

Last Traded Price (3 Mar 2021): S\$2.84 (STI : 3,000.37)
Price Target 12-mth: S\$3.90 (37% upside)

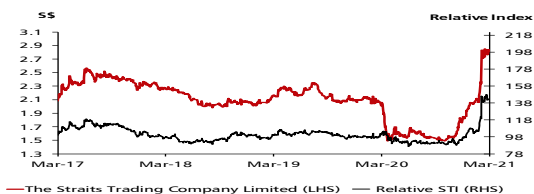
Analyst

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What's New

- FY20 PATNCI declines 39.0% y-o-y to S\$51.2m, in line
- Real Estate engines remain sturdy and strong
- Resources segment to benefit as tin prices are 70-80% off their March 2020 lows
- Maintain BUY with unchanged TP of S\$3.90

Price Relative



Forecasts and Valuation

FY Dec (S\$m)	2019A	2020A	2021F	2022F
Revenue	364	309	371	392
EBITDA	165	135	109	123
Pre-tax Profit	129	96.0	67.5	81.4
Net Profit	84.4	51.5	36.2	43.7
Net Pft (Pre Ex.)	84.4	52.4	36.2	43.7
Net Pft Gth (Pre-ex) (%)	16.5	(37.9)	(30.9)	20.7
EPS (S cts)	20.7	12.6	8.89	10.7
EPS Pre Ex. (S cts)	20.7	12.9	8.89	10.7
EPS Gth Pre Ex (%)	17	(38)	(31)	21
Diluted EPS (S cts)	20.7	12.6	8.89	10.7
Net DPS (S cts)	6.00	6.00	6.00	6.00
BV Per Share (S cts)	373	378	381	385
PE (X)	13.7	22.5	31.9	26.5
PE Pre Ex. (X)	13.7	22.1	31.9	26.5
P/Cash Flow (X)	41.5	nm	nm	97.8
EV/EBITDA (X)	10.9	14.9	18.8	17.1
Net Div Yield (%)	2.1	2.1	2.1	2.1
P/Book Value (X)	0.8	0.8	0.7	0.7
Net Debt/Equity (X)	0.3	0.4	0.4	0.4
ROAE (%)	5.7	3.4	2.3	2.8
Earnings Rev (%):			(40)	(25)
Other Broker Recs:		B: 1	S: 0	H: 0

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

The star duo – SRE and ARA

Investment Thesis:

Trading below replacement costs. We see compelling value in STC, trading at just 0.7x P/NAV and an even steeper discount to its realisable value. We believe its two key components, ARA Asset Management (ARA) and Straits Real Estate (SRE), will continue to drive growth and value in the company.

ARA's possible relisting is a key catalyst and could be worth up to S\$6.4bn. With the impending listing of ARA in 2021/2022, we believe STC will benefit significantly. We pegged ARA's valuation at S\$5.0bn (5% EV/AUM) based on historical REIT manager transactions. In our most bullish case, we believe ARA could be worth up to S\$6.4bn.

Core real estate business churns out stable recurring cashflows. The Group's real estate arm, SRE, has been timely in its real estate investments, amassing a portfolio of quality commercial and logistics assets with an estimated initial yield of 6.5%. The Group remains on track to grow its AUM to S\$2.4bn by 2022 from S\$1.8bn currently.

Valuation:

Maintain BUY and TP of S\$3.90. We maintained our TP, based on sum-of-the-parts (SOTP) valuation method and a 40% holding company discount. The bulk of our valuation stems from SRE (S\$2.27/share) and ARA (S\$2.73/share).

Where we differ:

We are the only brokerage covering this stock and we see deep value in its investments.

Key Risks to Our View:

Revaluation losses on its properties, disruption to Malaysian Smelting Corporation and Far East Hospitality Holdings.

At A Glance

Issued Capital (m shrs)	407
Mkt. Cap (S\$m/US\$m)	1,155 / 869
Major Shareholders (%)	
Cairns Pte Ltd/The	70.2
Standard Life Aberdeen	5.0
Free Float (%)	
3m Avg. Daily Val (US\$m)	0.48
GIC Industry : Real Estate / Real Estate Management &	



Live more, Bank less

The Straits Trading Company Ltd

WHAT'S NEW

Strong and sturdy

Results Review

FY20 PATNCI of S\$51.2m, down 39.0% y-o-y, was in line with our estimates. STC's PATNCI declined largely due to a weak operating environment in its Resources segment in 1H20, and continued weakness in its Hospitality segment due to COVID-19. Including non-controlling interest, STC's net profit declined 29.1% y-o-y to S\$71.2m.

- Its Resources segment recorded a PATNCI of S\$3.3m, down 24.7% y-o-y. It was impacted by lower tin prices and disruptions in operations in 1H20, as the Malaysian government imposed the Movement Control Order.
- Its Real Estate segment recorded a PATNCI of S\$69.8m, down 10.0% y-o-y. This was mainly due to lower interest income from the notes issued by a joint venture (320 Pitt Street) as well as lower fair value gains on its properties.
- Its Hospitality Segment recorded a PATNCI of -S\$11.8m. Its Hospitality segment was adversely impacted by the COVID-19 pandemic as operations were disrupted. It also recorded revaluation losses.

Improvements in its Resources segment in 2H20. Its Resources segment swung back from a PATNCI loss of S\$2.3m in 1H20, to a PATNCI of S\$5.6m. This was largely due to higher average tin prices and higher volume of refined tin sold.

Real Estate segment remains resilient, growth engines undeterred. Its Real Estate segment continues to generate steady and stable operating profit despite the impact from COVID-19.

- **Operating profit** increased 19.4% y-o-y to S\$63.0m in FY20, from S\$52.7m. This indicates the resilience of its investment properties under Straits Real Estate (SRE) and STC's property portfolio.
- **Share of results and associates and JVs** under its Real Estate segment declined by 49.6% y-o-y to S\$23.4m in FY20. This was largely due to lower interest income from the notes issued by its joint venture (320 Pitt Street), which we estimate to have contributed S\$30-35m in FY19.

Proposed dividend of 6.0 Scts/share, unchanged from FY19. This represents an FY20 dividend payout ratio of 47.2% and a dividend yield of 2.1%.

Key transactions for SRE include:

- **Divested nine freehold residential apartments in Greater Tokyo** for JPY18.9bn (approximately S\$244.2m) and realised a gain for the investment that it has held since 2017. The divestment gains exceeded target returns despite subdued market sentiments amid the pandemic.
- **Expanded into the UK by acquiring a freehold business park** known as Bourne Business Park, located in Addlestone, Surrey, England for GBP76.7m (approximately S\$137.9m). The acquisition offers resilient income stream from the property's stable existing leases.
- **Further development of logistics properties in Australia and South Korea** and positioned for the rising demand accelerated by the pandemic.

Notable developments for ARA include:

- **Completion of the acquisition of a majority stake in LOGOS Group**, thereby creating a best-in-class real estate logistics platform in the Asia Pacific. With the support of the platform, ARA LOGOS Logistics Trust ("ALOG") deepened its presence in Australia with a proposed acquisition that will increase its deposited property value by 28.2% to S\$1.7bn.
- **Completion of the acquisition of a majority stake in Venn Partners LLP**, an investment manager in European real estate private debt, and rebranded the entity ARA Venn. ARA Venn secured €200m from institutional investors for the first close of its latest debt fund in July 2020 and was also appointed by the British government as the exclusive manager of a new £3bn Affordable Housing Guarantee Scheme.
- **Completion of proportional offer for Cromwell Property Group ("CPG")**, raising its stake in CPG to 30.7% as at December 2020
- **Tender offer for Kenedix** by Sumitomo Mitsui Finance and Leasing Company ("SMFL") and ARA, which turned unconditional in January 2021. Kenedix will be privatised by March 2021, with ARA owning a 30% stake.
- **Growth in its REITs and various private funds**, including the acquisition of a 50% stake in the landmark Nova Estate in Victoria, London by Suntec REIT, and acquisition of Parc1 Tower II, a landmark office tower in Seoul, South Korea for S\$1.2bn.

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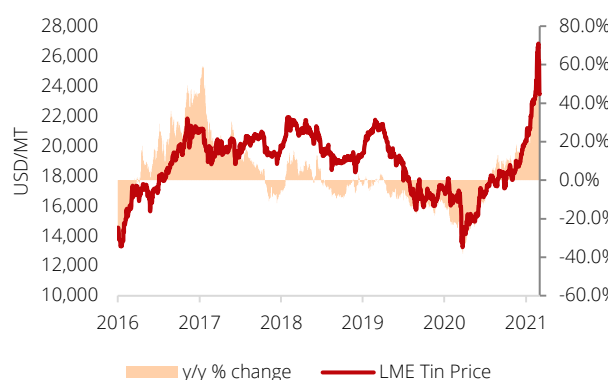
Our Thoughts, Earnings, and Recommendation

Real Estate segment is expected to remain sturdy, strong, and a key growth engine. STC's two key growth engines in its Real Estate segment, SRE and ARA, continued to drive growth in FY20, and are expected to do so going forward. We remain optimistic on SRE's continued asset recycling initiatives as well as ARA's proactive efforts to grow.

All eyes on ARA in 2021/2022. We continue to believe that ARA's possible relisting in 2021/2022 will be a key catalyst for STC. Our previous report dived into ARA's range of valuation and we revised our target valuation on ARA to S\$5.0bn, from S\$3.8bn.

Higher tin prices to lift Resources segment. As individuals spend more time at home, the global demand for electronics has increased, lifting tin prices. Tin prices on the London Metal Exchange have risen 70-80% off their lows of US\$13,000-14,000/MT. We are expecting the higher tin prices to lift its contribution to PATNCL in FY21.

Tin prices trend higher



Source: London Metal Exchange, Bloomberg Finance L.P., DBS Bank

Continue to expect headwinds in its Hospitality segment, but the impact is small. With the ongoing COVID-19 pandemic, we continue to expect poor performance from its Hospitality segment as the average daily rate (ADR) remains subdued by lower occupancies. Nonetheless, we do not see this as a large threat given that its Hospitality segment is still small, accounting for only 5.6% of our valuation.

We are adjusting our FY21F/22F earnings as we remove fair value gains in our projections, and as we expect higher contribution from its associates and JVs. Going forward, we are removing our fair value gains projections as they are lumpy and difficult to forecast. We are also increasing the contribution from its associates and JVs as ARA raises its stake in Cromwell and Kenedix.

Maintain BUY with an unchanged TP of S\$3.90. We continue to 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\$3.90 is based on a SOTP valuation method aggregating its interests in Malaysia Smelting Corporation, Straits Real Estate, ARA, its Property Portfolio, its holdings in Suntec REIT units, and Far East Hospitality Holdings.

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).

The Straits Trading Company Ltd

Interim Income Statement (S\$m)

FY Dec	1H2019	2H2019	1H2020	% chg yoy	% chg hoh
Revenue	216	147	135	(37.6)	(8.3)
Cost of Goods Sold	(174)	(98)	(103)	(40.4)	5.4
Gross Profit	43	49	32	(26.4)	(35.8)
Other Oper. (Exp)/Inc	5	15	(13)	(391.6)	(188.8)
Operating Profit	47	64	18	(61.7)	(71.7)
Other Non Opg (Exp)/Inc	0	0	0	-	-
Associates & JV Inc	24	22	5	(78.3)	(76.6)
Net Interest (Exp)/Inc	(14)	(14)	(14)	2.2	(1.5)
Exceptional Gain/(Loss)	0	0	0	nm	(100.0)
Pre-tax Profit	57	72	10	(83.3)	(86.9)
Tax	(9)	(20)	(4)	(61.2)	(81.6)
Minority Interest	(5)	(11)	0	92.0	(96.3)
Net Profit	43	42	5	(87.1)	(86.9)
Net profit bef Except.	43	42	5	(87.1)	(86.9)
EBITDA	71	86	23	(67.2)	(72.9)
Margins (%)					
Gross Margins	19.8	33.3	23.3		
Opg Profit Margins	21.9	43.5	13.5		
Net Profit Margins	19.7	28.4	4.1		

Source of all data: Company, DBS Bank

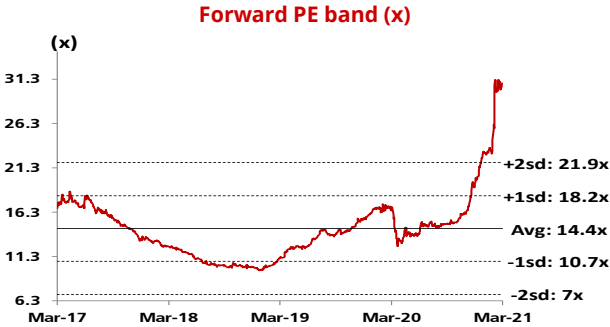
STC's SOTP Valuation

Component	Relationship	STC's Interest	Valuation Method	Valuation Attributable to STC (S\$m)	Valuer per Share (S\$)
Malaysia Smelting Corporation	Subsidiary	54.8%	P/E	88	0.22
Straits Real Estate	Subsidiary	89.5%	RNAV	924	2.27
ARA Asset Management Limited	Associate	22.1%	EV/Effective AUM	1,111	2.73
STC's Property Portfolio	Investment Properties	N.A.	RNAV	205	0.50
Suntec REIT Units	Investment Securities	N.A.	DBS' Target Price	148	0.36
Far East Hospitality Holdings	Joint Venture	30.0%	RNAV	172	0.41
Total				2,648	6.50
40% Holding Company Discount				(1,059)	(2.60)
STC's Valuation				1,589	3.90

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

The Straits Trading Company Ltd

Historical PE and PB Band



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



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

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Segmental Breakdown

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenues (\$m)					
Resources	429	324	267	330	350
Real Estate	27.3	39.6	42.1	41.1	42.0
Hospitality	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Total	456	364	309	371	392
Operating Profit (\$m)					
Resources	22.8	22.6	15.4	0.0	0.0
Real Estate	46.0	52.7	63.0	0.0	0.0
Hospitality	0.31	2.46	1.33	0.0	0.0
Others	1.29	6.83	0.79	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0
Total	70.4	84.6	80.5	0.0	0.0
Operating Profit					
Resources	2.9	7.0	8.5	4.7	0.0
Real Estate	69.6	116.3	125.2	153.4	0.0
Hospitality	N/A	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A
Others	N/A	N/A	N/A	N/A	N/A
Total	7.8	19.4	27.4	21.7	0.0

Income Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Revenue	456	364	309	371	392
Cost of Goods Sold	(380)	(272)	(223)	(277)	(292)
Gross Profit	76.2	91.9	86.0	93.9	99.8
Other Opng (Exp)/Inc	25.7	19.6	32.0	(43.5)	(43.1)
Operating Profit	102	112	118	50.4	56.7
Other Non Opg (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & JV Inc	25.7	45.5	8.73	49.4	54.9
Net Interest (Exp)/Inc	(27.2)	(27.7)	(29.8)	(32.4)	(30.2)
Exceptional Gain/(Loss)	(0.7)	0.0	(0.9)	0.0	0.0
Pre-tax Profit	99.7	129	96.0	67.5	81.4
Tax	(17.0)	(29.0)	(24.8)	(17.4)	(21.0)
Minority Interest	(11.0)	(16.0)	(19.7)	(13.9)	(16.7)
Preference Dividend	0.0	0.0	0.0	0.0	0.0
Net Profit	71.7	84.4	51.5	36.2	43.7
Net Profit before Except.	72.5	84.4	52.4	36.2	43.7
EBITDA	134	165	135	109	123
Growth					
Revenue Gth (%)	(3.7)	(20.3)	(15.1)	20.2	5.6
EBITDA Gth (%)	56.6	23.0	(18.4)	(18.8)	12.1
Opg Profit Gth (%)	140.6	9.5	5.7	(57.2)	12.5
Net Profit Gth (Pre-ex) (%)	56.5	16.5	(37.9)	(30.9)	20.7
Margins & Ratio					
Gross Margins (%)	16.7	25.3	27.8	25.3	25.5
Opg Profit Margin (%)	22.3	30.7	38.2	13.6	14.5
Net Profit Margin (%)	15.7	23.2	16.7	9.8	11.1
ROAE (%)	4.9	5.7	3.4	2.3	2.8
ROA (%)	2.9	3.2	1.8	1.2	1.5
ROCE (%)	1.9	2.2	0.8	0.1	0.5
Div Payout Ratio (%)	34.1	29.0	47.5	67.5	55.9
Net Interest Cover (x)	3.7	4.0	4.0	1.6	1.9

Increase in other operating expenses is due to a decline in interest income contribution from notes issued by a joint venture (320 Pitt Street)

Decline in contribution as its associates and JVs recorded fair value losses on their properties and impact on net profits from COVID-19

Source: Company, DBS Bank

The Straits Trading Company Ltd

Interim Income Statement (\$\$m)

FY Dec	1H2018	2H2018	1H2019	2H2019	1H2020
Revenue	240	216	216	147	135
Cost of Goods Sold	(208)	(129)	(174)	(98.2)	(103)
Gross Profit	32.6	87.3	42.8	49.1	31.5
Other Oper. (Exp)/Inc	22.0	(40.8)	4.58	15.0	(13.4)
Operating Profit	54.6	46.5	47.4	64.1	18.2
Other Non Op (Exp)/Inc	0.0	0.0	0.0	0.0	0.0
Associates & IV Inc	13.8	11.9	23.6	21.9	5.13
Net Interest (Exp)/Inc	(12.4)	(13.9)	(14.1)	(13.6)	(13.8)
Exceptional Gain/(Loss)	0.0	(0.7)	0.0	0.0	0.0
Pre-tax Profit	55.9	43.8	56.9	72.4	9.51
Tax	(8.4)	(8.6)	(9.3)	(19.6)	(3.6)
Minority Interest	(4.0)	(7.0)	(5.0)	(11.0)	(0.4)
Net Profit	43.6	28.1	42.5	41.9	5.49
Net profit bef Except.	43.6	28.9	42.5	41.9	5.49
EBITDA	68.3	58.4	71.0	86.0	23.3

Growth

Revenue Gth (%)	0.7	(10.1)	0.2	(31.9)	(8.3)
EBITDA Gth (%)	111.2	(14.5)	21.6	21.2	(72.9)
Opp Profit Gth (%)	169.8	(14.8)	2.0	35.4	(71.7)
Net Profit Gth (%)	146.9	(35.5)	51.2	(1.6)	(86.9)

Margins

Gross Margins (%)	13.6	40.4	19.8	33.3	23.3
Opp Profit Margins (%)	22.7	21.5	21.9	43.5	13.5
Net Profit Margins (%)	18.2	13.0	19.7	28.4	4.1

Balance Sheet (\$\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Net Fixed Assets	38.3	43.6	53.9	62.7	70.0
Invts in Associates & JVs	774	792	985	1,027	1,073
Other LT Assets	1,209	1,172	1,221	1,221	1,221
Cash & ST Invts	294	376	522	350	313
Inventory	163	153	198	218	230
Debtors	8.80	5.53	11.4	10.5	11.1
Other Current Assets	90.2	107	94.2	94.2	94.2
Total Assets	2,576	2,649	3,086	2,983	3,012
ST Debt	247	210	575	509	502
Creditor	75.3	49.7	70.2	74.6	78.6
Other Current Liab	8.23	14.5	28.8	32.7	36.3
LT Debt	617	660	613	543	535
Other LT Liabilities	29.8	45.6	71.5	71.5	71.5
Shareholder's Equity	1,467	1,519	1,538	1,550	1,569
Minority Interests	131	150	189	203	220
Total Cap. & Liab.	2,576	2,649	3,086	2,983	3,012
Non-Cash Wkg. Capital	178	202	204	216	220
Net Cash/(Debt)	(571)	(494)	(666)	(702)	(724)
Debtors Turn (avg days)	5.6	7.2	10.0	10.7	10.0
Creditors Turn (avg days)	71.1	86.5	101.8	98.6	99.4
Inventory Turn (avg days)	155.3	218.6	298.1	283.6	291.0
Asset Turnover (x)	0.2	0.1	0.1	0.1	0.1
Current Ratio (x)	1.7	2.3	1.2	1.1	1.1
Quick Ratio (x)	0.9	1.4	0.8	0.6	0.5
Net Debt/Equity (X)	0.4	0.3	0.4	0.4	0.4
Net Debt/Equity ex MI (X)	0.4	0.3	0.4	0.5	0.5
Capex to Debt (%)	37.3	(4.8)	(2.9)	1.7	1.7
Z-Score (X)	NA	NA	NA	NA	NA

Source: Company, DBS Bank

The Straits Trading Company Ltd

Cash Flow Statement (\$m)

FY Dec	2018A	2019A	2020A	2021F	2022F
Pre-Tax Profit	99.7	129	96.0	67.5	81.4
Dep. & Amort.	6.62	8.08	8.12	9.60	11.1
Tax Paid	(8.0)	(9.2)	(5.5)	(13.5)	(17.4)
Assoc. & JV Inc/(loss)	(25.7)	(45.5)	(8.7)	(49.4)	(54.9)
Chg in Wkg.Cap.	(9.9)	(7.9)	(65.2)	(15.1)	(8.4)
Other Operating CF	(55.3)	(46.9)	(61.9)	0.0	0.0
Net Operating CF	7.40	27.9	(37.3)	(1.0)	11.8
Capital Exp.(net)	(323)	41.9	35.1	(18.0)	(18.0)
Other Invs.(net)	59.3	(17.4)	28.0	0.0	0.0
Invs in Assoc. & JV	14.2	10.9	(143)	0.0	0.0
Div from Assoc & JV	36.3	35.1	6.89	7.80	8.15
Other Investing CF	4.80	(1.4)	(0.7)	0.0	0.0
Net Investing CF	(208)	69.2	(73.5)	(10.2)	(9.9)
Div Paid	(27.2)	(29.3)	(28.7)	(24.4)	(24.4)
Chg in Gross Debt	105	8.44	288	(137)	(14.2)
Capital Issues	(0.6)	(1.5)	(0.6)	0.0	0.0
Other Financing CF	5.82	(8.8)	(2.4)	0.0	0.0
Net Financing CF	82.5	(31.1)	256	(161)	(38.6)
Currency Adjustments	0.52	(0.3)	0.25	0.0	0.0
Chg in Cash	(118)	65.6	146	(173)	(36.7)
Opg CFPS (S cts)	4.23	8.78	6.85	3.47	4.96
Free CFPS (S cts)	(77.3)	17.1	(0.6)	(4.7)	(1.5)

Source: Company, DBS Bank

Target Price & Ratings History



Note: Share price and Target price are adjusted for corporate actions.

S.No.	Date of Report	Closing Price	12-mth Target Price	Rating
1:	04 Feb 21	2.77	3.50	BUY
2:	05 Feb 21	2.83	3.50	BUY
3:	22 Feb 21	2.84	3.90	BUY

Source: DBS Bank

Analyst: Wei Le CHUNG

Derek TAN

The Straits Trading Company Ltd

DBS Bank recommendations are based on an 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

Completed Date: 4 Mar 2021 08:20:04 (SGT)

Dissemination Date: 4 Mar 2021 09:01:32 (SGT)

Sources for all charts and tables are DBS Bank unless otherwise specified.

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