REAL ESTATE EQUITY RESEARCH

Straits Trading Company Limited

SGX: S20
Bloomberg: STRTR:SP
ISIN Code: SG1J49001550

Country: Singapore
Industry: Real estate, Hospitality, Resources

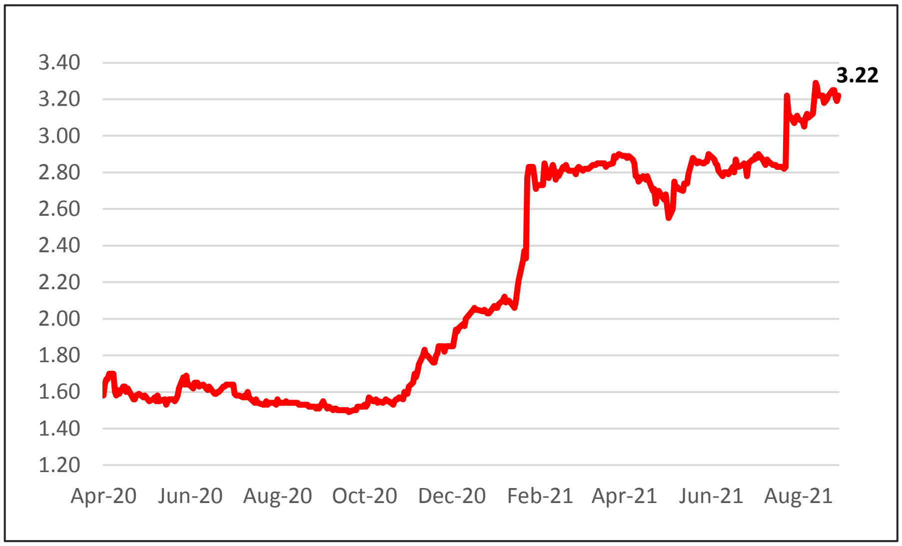
RECOMMENDATION: BUY

Current Price: S$3.220
Target Price: S$4.624

Issued shares: 406.82 million
Market capitalisation: S$1,309.96 million

52-week range: S$1.490 - S$3.310

Price Performance



Company description

The Straits Trading Company Limited (Straits Trading or the Company) is a conglomerate-investment company with diversified operations and financial interests internationally in resources, property and hospitality.

Summary

For the six months ended 30 June 2021 (1H2021), the Group, comprising Straits Trading and its subsidiaries, recorded a 62.2% year-on-year (y-o-y) increase in total revenue to S$219.0 million from S$135.0 million, largely due to a stronger performance from its Resources segment. The Group recorded a fair value gain in investment properties of S$47.1 million compared to a S$0.8 million loss in 1H2020, due to fair value gains from the its properties in Singapore and logistics portfolio in Australia amid a capitalisation rate compression in the logistics sector. Higher interest income and other income also benefited performance. However, total expenses rose by 54.1% y-o-y to S$218.2 million from S$141.7 million, largely due to higher cost of tin mining & smelting with higher revenue. Meanwhile, the Group's share of result of associates & joint ventures rose by S$79.2 million, given higher valuation of its logistics property in South Korea and higher revenues in an associate. For the period, shareholders' profit was S$112.6 million, translating to an earnings per share of 30.1 cents compared to 1.3 cents a year ago. No dividends were declared for the period as similar to 1H2020.

Recommendation

Based on the latest reported net asset value (NAV) per share of S$4.03, the Group is currently trading at a P/NAV multiple of 0.80x. Considering the Company's recent announcement regarding the disposal of the Group's 19.0% stake in ARA Asset Management Limited (ARA), we estimate that the Group's NAV per share is expected to increase post-transaction. Assuming that the transaction would be completed in 2022, we estimate that the Group's NAV per share will increase to S$5.78 from the latest reported NAV per share of S$4.03. Based on a P/NAV multiple of 0.59x on August 4 before the announcement of the ARA stake disposal, the estimated implied share price would be S$3.410 based on the adjusted NAV per share of S$5.78. Meanwhile, our peer comparison analysis shows an upside of 12.6% for the share price of the Group's listed subsidiary, Malaysia Smelting Corporation Berhad. In our view, the expected strong earnings boost from the ARA stake disposal and the Group's multitude of future growth opportunities should support further upside potential in the Company's share price. In the longer term, we believe it could be fair for the Group to trade at a P/NAV multiple of 0.80x. Accordingly, the estimated target price would be S$4.624, which is a 43.6% upside from the current share price of S$3.220. Considering the above, we will issue a buy recommendation on the Company.

Key Financials

Full year, ended Dec 31	Revenue (S$ million)	Shareholders' profit (S$ million)	EPS (cents)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (S$)	P/NAV (x)
2019 actual	363.6	84.4	20.7	15.56	6.0	1.86	3.73	0.86
2020 actual	308.9	51.5	12.7	25.35	6.0	1.86	3.78	0.85
2021 forecast*	348.6	147.7	36.3	8.87	6.0	1.86	4.03	0.80
2022 forecast**	381.4	741.7	182.3	1.77	12.0	3.73	5.78	0.56

P/E, P/NAV and dividend yield figures are computed based on current price of S$3.220
**Reported NAV as at 30 Jun 2021 for 2021*
***Estimated adjusted NAV per share post-transaction of the Group's disposal of its 19.0% stake in ARA*
Source: Company, FPA Financial

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COMPANY OVERVIEW

(I) Corporate profile

Incorporated in 1887, The Straits Trading Company Limited (Straits Trading or the Company) is a conglomerate-investment company with diversified operations and financial interests internationally in resources, property and hospitality. Its investments include majority or strategic stakes in Malaysia Smelting Corporation Berhad, which is dual listed on Bursa Malaysia and SGX-ST; Straits Real Estate; ARA Asset Management Limited and Far East Hospitality Holdings as well as a diversified property portfolio that is wholly-owned by the Group (comprising Straits Trading and its subsidiaries).

As at 30 June 2021, the Group had total assets of approximately S$3.7 billion and equity attributable to shareholders of approximately S$1.6 billion.

(II) Substantial shareholders of the Company

The Company's largest controlling shareholder is the family of the late Tan Sri (Dr) Tan Chin Tuan, who is the founder of the Tecity Group. His family members own and control the Tecity Group, in which Straits Trading is a member. The Tecity Group's ownership in Straits Trading is held through the Cairns Pte Ltd (Cairns), which directly owns 285,670,552 shares, or a 70.22% stake, in the Company as at 16 March 2021. Cairns is the immediate holding company of the Company. The ultimate holding company is Tan Chin Tuan Pte Ltd which holds a total interest of 74.18% through its deemed interest in the shares held by Cairns and 16,100,000 shares held directly by Mellford Pte Ltd (Mellford).

The substantial shareholders of the Company as at 16 March 2021 are summarised in **Exhibit 1**.

Exhibit 1: Substantial shareholders of the Company

Name of Substantial Shareholder	Direct Interest No. of Shares	%	Deemed Interest No. of Shares	%
The Cairns Pte. Ltd.	285,670,552	70.22	-	-
Tan Chin Tuan Pte. Ltd.[1]	-	-	301,770,552	74.18
Raffles Investments Private Limited[1]	-	-	285,670,552	70.22
Tecity Pte. Ltd.[1]	-	-	301,770,552	74.18
Aequitas Pte. Ltd.[1]	-	-	285,670,552	70.22
Dr Tan Kheng Lian[1]	1,402,760	0.34	301,770,552	74.18

Notes:

[1] Each of Raffles Investments Private Limited ("**Raffles**") and Tecity Pte. Ltd. ("**Tecity**") holds not less than 20 per cent. of the voting rights of The Cairns Pte. Ltd. ("**Cairns**"). By virtue of this, each of Raffles and Tecity has a deemed interest in the Company's shares held by Cairns. Aequitas Pte. Ltd. ("**Aequitas**") holds more than 50 per cent. of the voting rights of Raffles. By virtue of this, Aequitas has a deemed interest in the Company's shares held by Cairns. Tan Chin Tuan Pte. Ltd. ("**TCTPL**") holds more than 50 per cent. of the voting rights in Aequitas. By virtue of this, TCTPL has a deemed interest in the Company's shares held by Cairns. Dr Tan Kheng Lian holds more than 50 per cent. of the voting rights of Tecity. By virtue of this, Dr Tan Kheng Lian has a deemed interest in the Company's shares held by Cairns.

Source: Company

The Company's Executive Chairman is Ms. Chew Gek Khim, the granddaughter of the late Tan Sri (Dr) Tan Chin Tuan. She is also Executive Chairman of the Tecity Group. Her sister, Ms. Chew Gek Hiang, is a Non-Independent and Non-Executive Director of the Company.

(III) Company overview

Straits Trading's key business investments are categorized into three core segments: Property, Resources and Hospitality.

(i) Property segment

Within the Property segment, Straits Trading's key investments include Straits Real Estate Pte Ltd, STC Property Management Sdn Bhd, Straits Investment Management Pte Ltd and ARA Asset Management Holdings Pte Ltd.

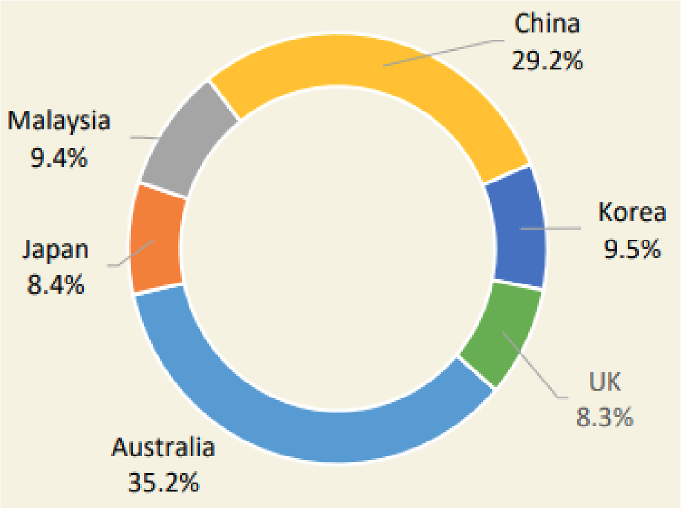
Straits Real Estate Pte Ltd (SRE)

SRE is an investment vehicle seeking out real estate related opportunities globally. It is a wholly-owned subsidiary of the Group since 9 April 2021, after Straits Trading had completed the acquisition of JL Family Office's (JLFO) 10.5% stake for an aggregate consideration of S$105 million. Prior to this, the Group's effective interest in SRE was 89.5%.

SRE's portfolio consists of pre-dominantly income-generating assets with stable cash flow. As at 30 June 2021, about 90% of its portfolio was made up of income-generating assets, with the remaining 10% comprising development assets.

In terms of country allocation, the portfolio provides a diverse exposure to the geographical markets of Australia, China, Japan, Malaysia, South Korea and the United Kingdom (UK), with allocations as shown in **Exhibit 2**.

Exhibit 2: Country allocation of SRE's portfolio



Source: Company

Australia

In Australia, SRE owns a logistics portfolio comprising build-to-suit warehouses which are located in Adelaide and Melbourne. On a fully developed basis, the portfolio is expected to offer a net lettable area (NLA) of 246,000 square metre (sqm). As at 30 June 2021, the portfolio was valued at approximately A$290.4 million (based on SRE's 80% stake) and achieved 99% occupancy (for operating assets) with a weighted average lease expiry (WALE) of 8.3 years.

SRE also owns an office property located at 45 St Georges Terrace, Perth. The property is an 11-storey office building with two basement levels and has a net floor area of 10,117 sqm. It is located in the main commercial thoroughfare of the Perth Central Business District (CBD), in close proximity to the Hay Street malls, the Cathedral and Treasury Precinct. The property was acquired at a consideration of approximately A$54.2 million (or approximately S$54.9 million based on an exchange rate of SGD1 = AUD0.98780 as at 30 June 2021) in December 2017. As at 30 June 2021, 45 St Georges Terrace had a property valuation of S$67.8 million based on SRE's proportional share of 96% (as estimated based on the Group's current shareholding of 100% in SRE).

The details of the Group's investment properties in Australia are summarised in **Exhibit 3.**

Exhibit 3: Details of the Group's investment properties in Australia

Property name	Location	Existing use	Tenure	Site area (sqm)	Net floor area (sqm)	Effective interest (%) [1]
South Australia						
Incitec Pivot	14 Ocean Steamers Road, Port Adelaide	Warehouse/office	Freehold	35,990	17,251	80%
Visy Glass	34 Share Street, Kilkenny Road, Kilkenny	Warehouse/office	Freehold	50,329	37,809	80%
Coca-Cola Amatil	33-55 Frost Road, Salisbury South, SA	Warehouse/office	Freehold	103,700	46,469	80%
Nexus North	Land at 157-165 Cross Keys Road, Salisbury South, SA	Industrial land	Freehold	151,900	-	80%
Raytheon	Allotment 32 Third Avenue, Mawson Lakes, SA	Warehouse/office	Freehold	37,980	14,719	80%
Victoria						
885 Mountain Highway	867-885 Mountain Highway Bayswater (Melbourne) VIC	Warehouse/office	Freehold	104,200	30,555	80%
677 Springvale	677 Springvale Road, Mulgrave, VIC	Warehouse/office	Freehold	22,510	12,085	80%
Western Australia						
45 St Georges Terrace	45 St Georges Terrace, Perth, WA	Office/Carpark	Freehold	1,826	10,117	96%

(1) Estimated by FPA to account for the Group's increased stake in SRE to 100% from 89.5%

Source: Company, FPA Financial

China

In China, SRE owns a 100% stake in a retail mall in Chongqing, known as My Place Mall, Chongqing. It has a net floor area of 37,240 sqm and a remaining lease term of about 30 years. As at 30 June 2021, the mall was valued at approximately S$173.9 million, which is a 25% premium over the purchase consideration of RMB668.4 million (or S$139.1 million based on an exchange rate of SGD1.00 = CNY4.80 as of 30 June 2021) when its was acquired in December 2014. The details of the Chongqing retail mall, which is classified as an investment property of the Group, are summarised in **Exhibit 4** on the next page. Meanwhile, through its joint venture, SRE also owns a 37.7% stake in a retail mall in Pudong, Shanghai, known as Suntec Mall – Sanlin Mall, Shanghai, which has an approximate gross floor area (GFA) of 83,074 sqm.

Exhibit 4: Details of the Group's investment property in China

Property name	Location	Existing use	Tenure	Unexpired lease term (year)	Site area (sqm)	Net floor area (sqm)	Effective interest (%)
My Place Mall, Chongqing	No. 186 Tongjiang Avenue, Nan'an District, Chongqing	Retail	Leasehold	30	15,774	37,240	100%

Source: Company, FPA Financial

Japan

Through its wholly-owned subsidiary, SRE Venture 7 Pte Ltd, SRE had in June 2018 subscribed into the Savills Investment Management Japan Value Fund II, LP (JVF2) with a committed capital of JYP8.0 billion. JVF2 has a mandate to acquire office and other assets in the Greater Tokyo area and other key cities in Japan. As of 31 December 2020, the Group's effective interest in JVF2 was 17%.

Malaysia

SRE owns a 40% stake in a portfolio of retail malls in Malaysia (Malaysia Retail Portfolio) through its subscription in the ARA Harmony Fund III, LP (ARA Harmony Fund III). SRE Venture 5 Pte Ltd, a wholly-owned subsidiary of SRE, had in June 2015 subscribed into ARA Harmony Fund III with a committed amount of approximately RM192.3 million.

The Malaysia Retail Portfolio comprises 5 retail malls which include 1 Mont Kiara Mall in Kuala Lumpur, AEON Bandaraya in Malacca, Ipoh Parade Mall in Perak, Klang Parade Mall in Selangor and Citta Mall in Selangor. As at 30 June 2021, the valuation of the portfolio was S$216.5 million, based on SRE's proportional share.

South Korea

In South Korea, SRE, through its joint venture with IGIS Asset Management Co. Ltd (IGIS AM) in June 2019, owns a 47% stake in a modern 6-storey ramp up logistics facility located in Incheon. The facility, known as Sky Logis, has been completed and provides a GFA of approximately 190,000 sqm. As at 30 June 2021, it had a property valuation of S$200.2 million, based on SRE's proportional share.

In February 2021, Straits Trading announced that SRE had inked an agreement to acquire a land parcel in Anseong City in the metropolitan Seoul area which can potentially be developed into a multi-storey logistics facility with total lettable area of about 110,000 sqm, comprising both cold storage and dry warehouse space. We note from Straits Trading's latest 'Investor Presentation' in August 2021 that the land acquisition has been completed at a cost of S$26.1 million.

UK

In the UK, SRE wholly-owns a prime business park located in Addlestone, Surrey with six standalone office buildings. The freehold property, known as Bourne Business Park, has a net floor area of 17,539 sqm and was acquired for GBP76.7 million (or S$142.8 million based on an exchange rate of approximately GBP1.00 = SGD1.86 as at 30 June 2021) in September 2020. As at 30 June 2021, it was valued at S$145.3 million, representing a slight premium of approximately 2% over the acquisition price. The details of the property, which is classified as an investment property of the Group, are summarised in **Exhibit 5** on the next page.

Exhibit 5: Details of the Group's investment property in the UK

Property name	Location	Existing use	Tenure	Site area (sqm)	Net floor area (sqm)	Effective interest (%)
Bourne Business Park	Dashwood Lang Road, Addlestone, Surrey, KT15 2NX	Business park	Freehold	62,400	17,539	100%

Source: Company, FPA Financial

STC Property Management Sdn Bhd (STCPM)

STCPM is the Group's wholly-owned subsidiary which is responsible for the development of a 40-acre master planned development project in Penang, Malaysia.

The project, known as Straits City, is strategically located along the Butterworth waterfront and offers a panoramic view of Penang Island. It is an integrated development that will comprise of residential, retail, offices, hotels, and service apartments. STCPM has embarked on the first phase of developing a 4-star hotel, which is scheduled for completion in 2022.

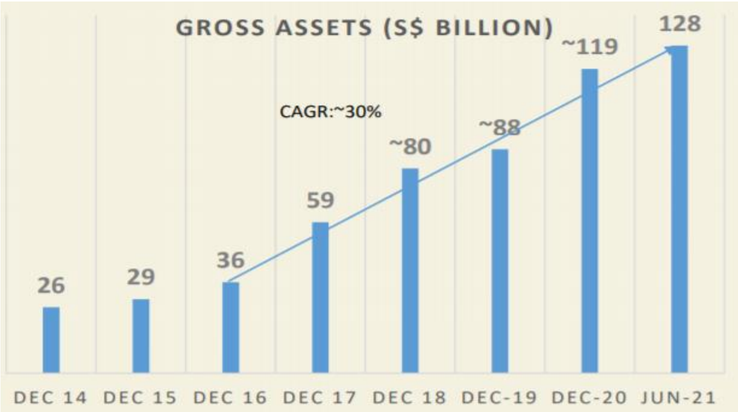
Straits Investment Management Pte Ltd (SIM)

A wholly-owned subsidiary of Straits Trading, SIM is a specialist global real estate securities manager that manages capital for institutions, family offices and ultra-high-net-worth individuals. SIM is a Registered Fund Management Company and is regulated by the Monetary Authority of Singapore. It has a strategic partnership with Nikko Asset Management and serves as the sub-advisor to Nikko AM Shenton Global Property Fund.

ARA Asset Management Holdings Pte Ltd (ARAH)

ARAH is the holding company of ARA Asset Management Limited (ARA), a leading Asia Pacific real assets fund manager with a global reach. It manages listed and unlisted real estate investment trusts (REITs), private real estate equity and credit funds, and infrastructure funds, in 28 countries globally. As of June 2021, ARA's gross assets under management stood at approximately S$128 billion, as shown in **Exhibit 6**.

Exhibit 6: ARA's gross AUM over the years



Source: Company

Background

The Group had in 2013 acquired a 20.1% stake in ARA for S$293.3 million, with ARA becoming an associate of the Group on 29 November 2013.

In 2017, ARA was privatized and delisted from the Singapore Exchange, which led to the Group receiving S$48.2 million in cash and S$308.6 million being reinvested as rollover shares in ARAH, which was then newly incorporated as a holding company of ARA. Following the completion of the transaction in April 2017, the Group's effective interest in ARA, held through ARAH, increased from 20.1% to 20.95%. As at 31 December 2017, the carrying value of the Group's interest in its associate ARAH was S$353.6 million.

In May 2020, the Group, through its wholly-owned subsidiary Straits Equities Holdings (One) Pte Ltd (SE1), acquired approximately 1.11% of the shares of ARAH for approximately S$30.2 million. This had increased the Group's effective interest in ARAH to approximately 22.06%.

Recent development

For a while, the possibility of ARA's re-listing has been regarded as a potential catalyst for Straits Trading. In September 2019, ARA's Group CEO and co-founder John Lim remarked that the real estate fund manager is exploring a dual stock market listing, including one in Singapore, in the next two to three years, according to a report by the Business Times. Then, Mr. Lim had also highlighted that he expects ARA to have a valuation of between S$4 billion to S$5 billion in two to three years. In a January 2021 article by the Straits Times, it was reported that the Group's stake in a newly re-listed ARA could be worth upwards of S$1 billion, far higher than its own market capitalization of about S$850 million at point of writing then.

Nevertheless, on 5 August 2021, the Company announced the disposal of shareholding in ARA by its associated company, ARA Investment (Cayman) Limited (ARAC). This was due to Hong Kong-listed ESR Cayman Limited's (ESR) move to acquire 100% of the share capital of ARA for US$5.2 billion. As at the announcement date, the Company through SE1 has approximately a 18.97% indirect economic interest in ARA. According to the Company's announcement, SE1's indirect economic interest in ARA is derived through its 22.06% shareholding in ARAH, which holds approximately 96.21% of the effective economic interest in ARAC. ARAC holds approximately 89.38% of the issued shares in ARA.

Upon completion of the transaction, which is expected to take place in Q4 2021 or Q1 2022, the Group, through SE1, will receive approximately S$1,140.4 million in a combination of S$134.8 million in cash, S$915.3 million by the issuance of 195.4 million ordinary shares in the capital of ESR and S$90.4 million by the issuance of 19.3 million vendor loan notes from ESR. We note from ESR's announcement dated 4 August 2021 that SE1 would hold a 4.8% shareholding in ESR post-transaction.

As disclosed in the announcement, the illustrative impact of the transaction, assuming it had been effected at the beginning of 2020, would be an addition of S$716.9 million to the Group's net profit after tax and minority interest of S$51.5 million for 2020 as shown in **Exhibit 7** on the next page. This would then yield a net profit after tax and minority interest of S$768.4 million. In terms of per share earnings, this would increase the Group's EPS to 188.8 cents from 12.7 cents in 2020.

Exhibit 7: Illustrative effect of the Proposed Transaction on EPS*

	Before the Proposed Transaction	Adjustments	After the Proposed Transaction
Net Profit after tax and minority interest (S$m)	51.5	716.9	768.4
Weighted average number of STC Shares (excluding treasury shares) (m)	406.9		406.9
EPS (S$ cent)	12.7		188.8

**Based on audited consolidated financial statements of the Group for 2020 under assumption that the Proposed Transaction had been effected at the beginning of 2020*
Source: Company

Given the potential boost to the Group's earnings, we would consider the impact in our 'Earnings Projection' section, assuming the transaction was completed in 2022.

(ii) Resources segment

Within the Resources segment, Straits Trading is involved in tin mining and smelting activities through its resources subsidiary, Malaysia Smelting Corporation Berhad (MSC), which is one of the three leading refined tin producers in the world.

As one of the world's leading integrated producers of tin metal and tin-based products, the principal activities of MSC and its subsidiaries (collectively, the MSC Group) include the upstream to downstream activities of the tin value chain through its tin mining and tin smelting businesses. The MSC Group is also involved in external tolling and boutique tin sales to end users.

MSC's smelting activities are currently conducted at its Butterworth smelter in Penang and is in the midst of relocating to a new facility at Pulau Indah, Port Klang, which will be equipped with more efficient Top Submerged Lance (TSL) furnace. The new smelter has been commissioned and is currently under test, and running at 25% of its designed capacity, with completion expected in late 2021 or early 2022. With the imminent relocation to Pulau Indah, MSC will achieve a higher extractive yield by 50% using the more efficient TSL furnace with lower operational costs and carbon footprint. Meanwhile, MSC's tin mining business undertaken by Rahman Hydraulic Tin Sdn. Bhd. (RHT) at Klian Intan, Perak is also undergoing technical upgrading to support its expansion plans.

Following MSC's completed Private Placement on 30 July 2021, which resulted in the issuance of 20 million shares at a issue price per share of MYR1.90, the Group's stake in the company has been reduced to 52.0% from 54.8%.

(iii) Hospitality segment

Within the Hospitality segment, Straits Trading is involved in hotel ownership and hotel management under its 30%-owned associate, Far East Hospitality Holdings Pte Ltd (Far East Hospitality), which is a joint venture formed in 2013 with Far East Orchard Limited (FEOR). In the same year, Far East Hospitality and Australia's Toga Group formed a 50-50 joint venture, Toga Far East Hotels (TFE Hotels).

Currently, Far East Hospitality owns more than 10 hospitality assets and manages over 100 properties with more than 16,500 rooms in Australia, Denmark, Germany, Hungary, Japan, Malaysia, New Zealand, and Singapore. It operates nine unique and complementary hospitality brands Oasia, Quincy, Rendezvous, Village, Far East Collection, Adina Apartment Hotels & Adina Serviced Apartments, Vibe Hotels, Travelodge Hotels and TFE Hotels Collection.

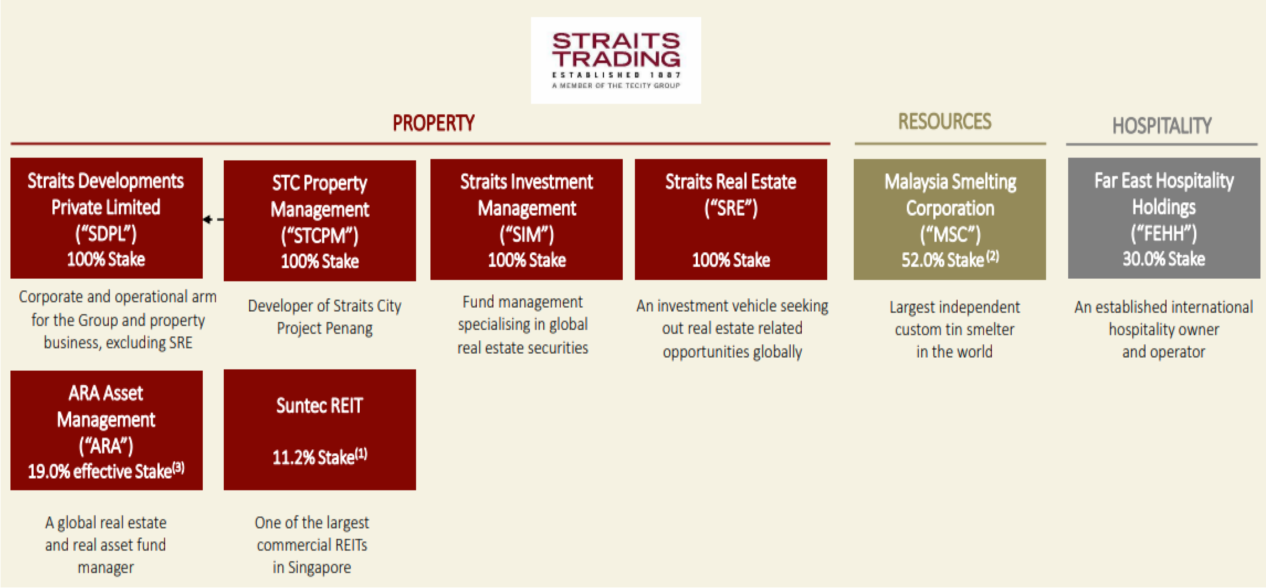
Despite the challenging Covid-19 environment, Far East Hospitality expanded its hospitality management portfolio with the opening of 3 new hotels across Asia Pacific in 1H2021. This included the 324-key The Clan Hotel in Singapore on March 1; the 241-key Quincy Hotel Melbourne in Australia on March 12; and the 227-key Far East Village Hotel Yokohama in Japan on June 1.

More recently, Far East Hospitality made its first foray into the resort and spa category with the opening of Oasia Resort Sentosa on September 1. The 191-room resort takes over the former Le Meridien which closed in October 2020.

(iv) Company structure

An overview of the Company's structure, which details the individual entities within the Property. Resources and Hospitality segments, is summarised in **Exhibit 8**.

<u>Exhibit 8: Overview of Company structure</u>



(1) Aggregate interest in Suntec REIT, comprising 2.8% direct interest and 8.4% deemed interest through its shareholding in ARA group companies
(2) Post placement of 5% of shares outstanding in July 2021
(3) This being the product of SE1's shareholding in ARAH (22.06%), ARAH's effective economic interest in ARAC (96.21%) and ARAC's shareholding in ARAB (89.38%) = 18.97%
Source: Company

INDUSTRY OVERVIEW

(I) Industrial real estate market review

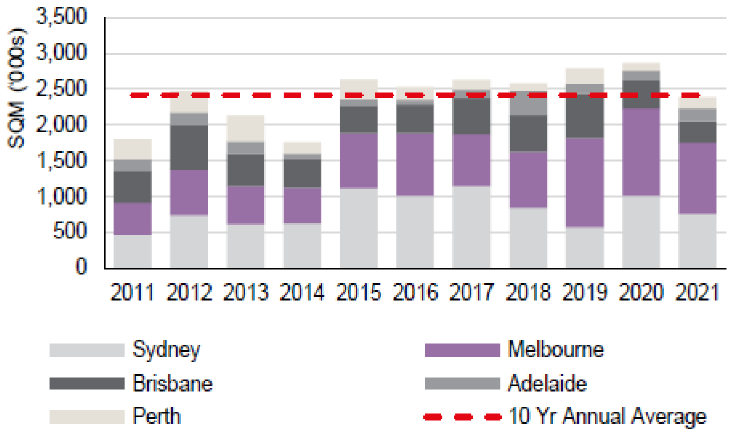
Australia

In its latest 'Australia Industrial Market Overview Q2 2021' report, Jones Lang LaSalle (JLL) highlighted that the conditions in Australia's logistics & industrial market continued to outperform historic benchmarks in Q2 2021, reaching new records in both the occupier and investment markets. Gross take-up in the period totaled 1,233,500 sqm, a 7% increase on the record high of 1,156,130 sqm in Q1 2021, and 98% higher than the 10- year quarterly average. Activity was heavily concentrated in Melbourne and Sydney, although all markets outperformed their respective 10-year quarterly averages by over 50%.

Looking at the specific markets of Adelaide and Melbourne, in which the Group's logistics properties are located, we note from JLL that demand has been strong. In Adelaide, occupier demand occupier demand remained positive with 78,000 sqm of gross take-up recorded in Q2 2021. JLL highlighted that occupier demand has increased significantly in 2021, with year-to-date gross take-up in 2021 of 180,400 sqm surpassing the annual total recorded in 2020 of 133,400 sqm by 35%. Similarly in Melbourne, occupier activity has remained elevated above the 10-year quarterly average. Gross take-up totalled 445,690 sqm in Q2 2021, with the West precinct accounting for 60% of gross take-up.

A summary of national leasing volumes in Australia over the period from 2011 to 2021 is shown in **Exhibit 9**.

Exhibit 9: National leasing volumes in Australia



Source: JLL Research

We also note from Knight Frank that the demand for prime warehousing facilities in Australia continues to surge as accelerating growth in online /e-commerce usage and rising investment in supply chain drivers by businesses are showing no signs of slowing down. The heightened need for speed to market, as well as the demand for higher quality and often larger facilities to accommodate automated supply chain requirements, is elevating the demand for logistics and warehouse space. Knight Frank highlighted that rising demand for the distribution & storage of goods from food & beverage, electronics and healthcare sectors is increasing the pressure on existing availabilities to the point that demand is starting to outpace supply and vacancy is declining.

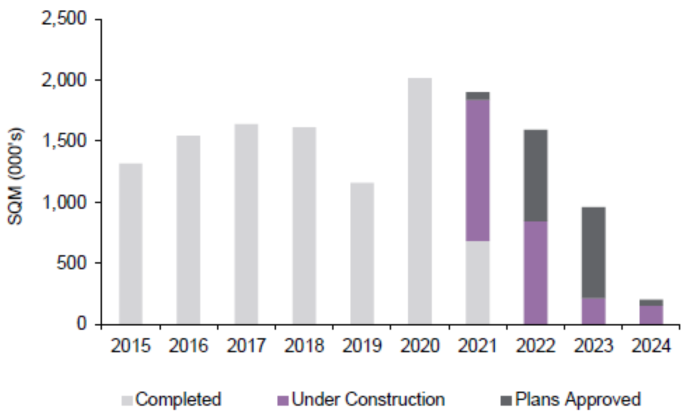
In terms of national supply, JLL highlighted that delivery of new assets trended up for the first time in six months during Q2 2021, as the acceleration in new construction projects at the end of last year began to translate to completed assets. During the period, a total of 461,380 sqm of stock was delivered across 31 projects nationally, more than double the 1Q21 total and 26% higher than the 10 year quarterly average. Pre-commitment rates were relatively high at 75% despite the elevated level of completions this quarter, reflective of the strength in occupier markets.

In Adelaide, new supply totalled 55,800 sqm in Q2 2021. We note from JLL that supply has fallen from the robust levels recorded in 2020, as most occupiers prefer existing space over new buildings for their accommodation needs. However, annual supply in 2021 is expected to exceed 100,000 sqm. For Melbourne, a total of 256,610 sqm of stock reached completion in Q2 2021, a 49% increase from the previous quarter. Pre-commitment levels were strong again in Q2 2021, as 87% of stock was absorbed prior to completion, according to JLL.

Looking ahead, JLL expects stock delivery to trend up over the rest of 2021, as 1.22 million sqm of additional space is anticipated to complete over the remainder of 2021.

A summary of national construction activity in Australia is shown in **Exhibit 10**.

Exhibit 10: National construction activity in Australia



Source: JLL Research

Meanwhile, in terms of rentals, we note from JLL that the national prime weighted average face rental rate recorded its highest single-quarter increase since Q3 2011, following back-to-back quarters of record-breaking occupier activity. Rental growth was broad based across the country, led by the Adelaide (+1.6%) and Perth (+1.5%) markets. Notably, all five tracked markets recorded market-average increases in prime net face rents of over 0.7%. Over the last 12 months, national weighted rents have increased by 2.4%, double the average over the previous 10 years. JLL believes the rapid growth in occupier activity seen so far in 2021 will likely provide scope for elevated rental growth in the short term.

Similarly, Knight Frank believes the demand surge will keep pressure on vacancies and if it outpaces supply, then rents will rise. With the return of lockdown conditions in Sydney, Queensland and Melbourne plus strict internal border closures in July 2021, the real estate firm believes there is likely to be a further increase to distribution and storage demand. Thus, this will intensify the pressure on available options especially in those locations with already historical low vacancy levels, such as Sydney's Outer West, Melbourne's West and South East, resulting in rent and further land value growth.

South Korea

In its latest 'Seoul MarketView Q2 2021' report, CBRE noted that 450,000 sqm of new Grade A logistics space was completed in Greater Seoul in Q2 2021. For 1H2021, about 45% or 950,000 sqm of scheduled full-year supply in Greater Seoul had came on stream. The bulk of supplies are scheduled in 2022 but strengthened government regulation could delay the speed of completion. Looking at demand, CBRE highlighted that most large buildings completed in the Greater Seoul logistics market in 2021 have been able to secure tenants and are already close to full occupancy despite consistent supply. Robust demand from e-commerce and 3PL companies ensured Greater Seoul logistics vacancy stood at 2.4% at the end of Q2 2021.

Meanwhile, in terms of rents, CBRE highlighted that higher rents in newly supplied assets, mostly in the western part of Greater Seoul, and robust leasing demand drove rental gains in the Greater Seoul Grade A logistics market. Rent performance was strongest in the Western segments and weakest in the South, as shown in **Exhibit 11**.

Exhibit 11: Greater Seoul logistics rents in 1H2021 (KRW/pyeong/month)

Source: CBRE Research

(II) Australia office real estate market review

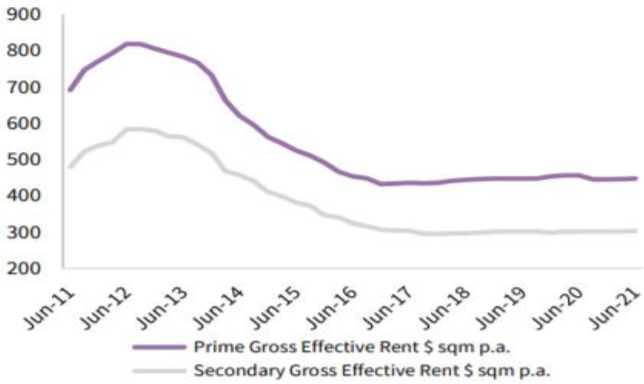
In its latest 'Australia Office Market Overview Q2 2021' report, JLL highlighted that positive economic and labour market indicators supported improved demand for office space across Australia's CBD markets in Q2 2021, with the exception of Brisbane which recorded negative demand over the quarter. Net absorption was 16,000 sqm in Q2 2021 – the first positive quarterly result since Q4 2019. However, headline vacancy rose to 14.0% as a result of new supply completions and increasing backfill vacancy. As a result, Australian CBD prime gross effective rents declined by 1.3% to AUD569 per sqm per annum over the quarter.

Perth CBD

For Perth CBD, where SRE's 45 St Georges Terrace property is located, leasing conditions improved over Q2 2021, with net absorption totalling 8,500 sqm. JLL highlighted that the professional services sector remains an active participant in the Perth CBD office market, with project space requirements contributing to demand for office space. Of the major gross take-up over the quarter, the professional services sector accounted for half of overall activity.

At the same time, future confirmed supply remains low, according to JLL. There were no new major completions over the Q2 2021, with a low future supply pipeline in the short to medium term. The vacancy rate moderately slightly 0.5 percentage points (pps) over Q2 2021 to 19.7%. Overall, prime gross effective rents remained stable in June 2021 from a year ago, as seen in **Exhibit 12**.

Exhibit 12: Perth CBD gross effective rent



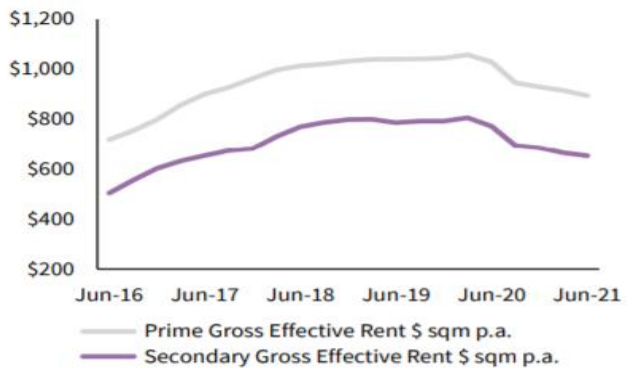
Source: JLL Research

Sydney CBD

For Sydney CBD, where SRE's 320 Pitt Street property is located, net absorption totalled 1,200 sqm over Q2 2021, marking the first quarter of positive demand since Q3 2019. JLL highlighted that demand was primarily driven by large tenant (> 1000 sqm) activity contributing to 12,300 sqm of net absorption. However this was offset by backfill space arising from tenants relocating to new developments which completed during the quarter. Meanwhile, there were both significant completions and withdrawals recorded over Q2 2021. However completions in 2021 are on track to reach 110,200 sqm. Over Q2 2021, prime vacancy increased by 1.1 pps to 13.6% while the secondary vacancy rate increased 1.2 pps to 12.5%. Accordingly, overall headline vacancy rose by 1.2 pps to 13.2%.

Overall, Sydney CBD prime gross effective rents fell by 2.2% over Q2 2021 to AUD 895 per sqm per annum. The primary driver of effective rental decrease was an uptick in prime incentives, which rose to 32.6% in the quarter, a 1.5 pps increase from Q1 2021. A summary of the performance of Sydney gross effective rents is shown in **Exhibit 13**.

Exhibit 13: Sydney CBD gross effective rent



Source: JLL Research

(III) Tin mining industry review

According to latest forecasts by Fitch Solutions Country Risk and Industry Research (Fitch), tin mine supply will grow strongly in 2021 due to both high prices by historic standards and reduced disruption to mining operations from the Covid-19 pandemic. High prices are also expected to continue through the year. London Metal Exchange (LME) three-month tin surged to a record high during Q3 2021, having more than doubled from the Covid-19 low of less than $15,000/tonne in March 2021 to over $30,000/tonne in July.

However, as vaccination against Covid-19 will be gradual in all major tin producing countries except China, Fitch Solution believes the ramp-up of tin mine operations across the world will not be a smooth process. The firm expects sporadic tightening of lockdown restrictions in major producing countries to constrain the pace at which spare mine capacity can be utilized. According to Fitch, the lack of competitive diversity in the tin mining landscape also plays a role in the way mining ramp-up will pan out particularly because, in major producing countries, the sector is often dominated by a single firm.

In Fitch's view, however, the most significant factor that may slow output growth will be more stringent environmental regulations in countries such as China, Malaysia and Indonesia. Two case points exemplify this assertion, and those are the moratorium on new exploration licenses announced in June 2019 by the Perak State in Malaysia, which halted Australian junior Elementos' Temengor tin project. Meanwhile, in Indonesia, protests by coastal communities threaten to disrupt PT Timah's expansion of offshore mining for tin in the country.

Regardless of what takes place in these specific localities, Fitch believes that a favourable price outlook and concerns over tin concentrate supply lagging behind consumption demand will make projects more likely to receive management approval to move forward as the economics of the project are more likely to be realized.

High prices may present an upside risk to the current tin mine production forecasts for the coming decade, Fitch predicts. According to the firm, global tin mine production grew at an annual average rate of 2% y-o-y over 2010-2020 and it has forecast annual growth of 1.5% over 2021-2030. This would be significantly slower than annual average growth rates for other metals including copper (3.8%), nickel (4.5%) iron ore (1.9%) and gold (3.2%).

FINANCIAL ANALYSIS

In this section, we will review the Group's financial results for the 6 months ended 30 June 2021 (1H2021) as well as its historical financial performance over the last 5 years.

(I) Financial review

Review of latest 1H2021 results

For 1H2021, the Group recorded a 62.2% year-on-year (y-o-y) increase in total revenue to S$219.0 million from S$135.0 million, largely due to a stronger performance from its Resources segment. During the period, tin mining & smelting revenue, which made up 89.3% of total revenue, rose by 69.8% to S$195.6 million from S$115.2 million a year ago, mainly due to higher average tin prices and higher sales quantity of refined tin. Meanwhile, Property revenue rose by 18.3% y-o-y to S$23.5 million, contributing to 10.7% of total revenue. The breakdown of the Group's total revenue in 1H2020 and 1H2021 are summarized in **Exhibit 14**.

Exhibit 14: Breakdown of the Group's total revenue in 1H2020 and 1H2021

	1H2020		1H2021		
Revenue breakdown	S$'000	% of total	S$'000	% of total	y-o-y change
Tin mining & smelting	115,173	85.3%	195,555	89.3%	69.8%
Property	19,843	14.7%	23,468	10.7%	18.3%
Total	**135,016**	**100.0%**	**219,023**	**100.0%**	**62.2%**

Source: Company, FPA Financial

In 1H2021, dividend income fell by 11.0% y-o-y to S$4.0 million while interest income more than doubled to S$15.2 million due to notes issued by a joint venture. For the period, the Group recorded a fair value gain in investment properties of S$47.1 million, compared to a S$0.8 million loss in 1H2020. This was due to fair value gains from the Group's properties in Singapore and logistics portfolio in Australia amid a capitalisation rate compression in the logistics sector.

Other income increased to S$14.3 million from S$0.4 million a year ago. As highlighted in **Exhibit 15** on the next page, the increase was largely due to a S$3.4 million increase in net gain on disposal of investment properties, a S$6.2 million increase in other operating income, and a profit of S$7.6 million relating to held-for-trading equity securities at fair value through profit and loss (FVTPL) as compared to a loss of S$4.8 million in 1H2020. The impact of these were partially offset by a net loss on disposal of equity securities at FVTPL of S$8.8 million as compared to a gain of S$0.1 million in 1H2020.

Exhibit 15: Breakdown of the Group's other income in 1H2020 and 1H2021

Breakdown of other income	1H2020 S$'000	1H2021 S$'000
Net gain on disposal of investment properties	2,306	5,739
Net gain/(loss) on disposal of subsidiaries, associates and joint ventures		
- Foreign exchange impact on capital reduction	248	565
- Others	-	(2)
Net (loss)/gain on disposal of equity securities at fair value through profit and loss (FVTPL)	141	(8,780)
Fair value changes in financial assets:		
- Held-for-trading equity securities at FVTPL	(4,777)	7,623
- Derivatives at FVTPL	(160)	(436)
- Ineffective portion of derivatives designated as hedging instruments in cash flow hedge	702	1,467
Fund related fees	1,219	1,155
Other operating income	772	6,999
Total	**451**	**14,330**

Source: Company, FPA Financial

Meanwhile, total expenses increased by S$76.6 million, or 54.1%, to S$218.2 million from S$141.7 million a year ago. The overall increase in total expenses was mainly due to relatively large increases in costs of tin mining & smelting, finance costs and other expenses. Costs of tin mining & smelting rose by 53.3% y-o-y to S$158.6 million in line with higher tin mining & smelting revenue. Finance costs of S$17.3 million were up by 25.3% y-o-y from S$13.8 million in 1H2020. Other expenses more than doubled to S$12.6 million from S$4.7 million a year ago, mainly as the Group incurred exchange gains of S$1.0 million as compared to losses of S$6.4 million in 1H2020. Further, a total of S$9.8 million in impairment losses were incurred in relation to the impairment of a land under development in Butterworth pursuant to the revaluation of the property under development, as well as impairment of land mining rights and mine properties in the Resources segment. The breakdown of the Group's total expenses in 1H2020 and 1H2021 are summarised in **Exhibit 16**.

Exhibit 16: Breakdown of the Group's total expenses in 1H2020 and 1H2021

Total expenses breakdown	1H2020 S$'000	1H2021 S$'000	Change (%)
Employee benefits expense	15,321	16,086	5.0%
Depreciation expense	4,220	3,641	-13.7%
Amortisation expense	177	207	16.9%
Impairment losses	-	9,817	NM
Costs of tin mining & smelting	103,492	158,617	53.3%
Finance costs	13,786	17,276	25.3%
Other expenses	4,667	12,589	>100%
Total expenses	**141,663**	**218,233**	**54.1%**

Source: Company, FPA Financial

For the period, the Group recorded a S$79.2 million increase in share of result of associates & joint ventures, given higher valuation of its Arenas Yeongjong Logistics property in South Korea and higher revenues in an associate.

As a result, profit before tax of S$165.7 million was recorded for 1H2021, compared with S$9.5 million a year ago. During the period, income tax increased to S$7.2 million from S$4.1 million in 1H2020 and deferred tax of S$17.0 million was incurred, bringing income tax expenses to a total of S$24.2 million. Net of these expenses, the Group's profit after tax was S$141.6 million, of which S$122.6 million was attributable to shareholders and the remaining S$19.0 million to non-controlling interests. Given S$122.6 million in shareholders' profit, earnings per share (EPS) amounted to 30.1 cents in 1H2021, compared to 1.3 cents a year ago. No dividend was declared for 1H2021, as the Company does not have a standing practice of declaring dividend in the first half of the financial year. The Group's financial results for 1H2020 and 1H2021 are summarized in **Exhibit 17**.

Exhibit 17: Group's financial results for 1H2020 and 1H2021

[S$'000]	1H2021	1H2020	Change (%)
Revenue			
Tin mining & smelting revenue	195,555	115,173	69.8%
Property revenue	23,468	19,843	18.3%
Total revenue	219,023	135,016	62.2%
Other items of income/(loss)			
Dividend income	4,006	4,502	-11.0%
Interest income	15,175	6,881	>100%
Fair value changes in investment properties	47,112	(805)	NM
Other income	14,330	451	>100%
	299,646	146,045	>100%
Other items of expense			
Employee benefits expense	(16,086)	(15,321)	5.0%
Depreciation expense	(3,641)	(4,220)	-13.7%
Amortisation expense	(207)	(177)	16.9%
Impairment losses	(9,817)	-	NM
Costs of tin mining & smelting	(158,617)	(103,492)	53.3%
Finance costs	(17,276)	(13,786)	25.3%
Other expenses	(12,589)	(4,667)	>100%
Total expenses	(218,233)	(141,663)	54.1%
Share of results of associates & joint ventures	84,332	5,129	>100%
Profit before tax	165,745	9,511	>100%
Income tax expense	(24,155)	(3,623)	>100%
Profit after tax	**141,590**	**5,888**	**>100%**
Profit attributable to:			
Owners of the Company	**122,607**	**5,485**	**>100%**
Non-controlling interests	18,983	403	>100%
	141,590	5,888	>100%
Profit attributable to equity holders	122,607	5,485	>100%
Weighted average no. of shares in issue ('000)	406,910	406,910	-
EPS (cents)	**30.1**	**1.3**	**>100%**

NM: not meaningful

Source: Company, FPA Financial

Review of historical financials

Having reviewed the Group's latest 1H2021 results, we will also evaluate its 5-year historical financial performance. Over the last 5 years, there has been a downward trend in the Group's overall revenue performance. This was mainly due to declining revenue contribution from the Resources segment. Over 2016 to 2020, tin mining & smelting revenue fell steadily, while property revenue generally rose over the 5-year period, except in 2017.

Despite the declining revenue trend, we note that the Group has held up relatively well in terms of profitability. Looking at operating profitability, the Group's operating profit margin, as measured by earnings before interest & tax (EBIT) over total revenue, has broadly improved during the period from 2016 to 2019, except in 2017. Owing to the negative impact of the Covid-19 pandemic, operating performance naturally weakened in 2020, but the operating profit margin of 40.7% was still higher than the levels recorded during 2016 to 2018.

Meanwhile, net profit margin, as measured by profit after tax over total revenue, followed a similar trend and generally increased from 2016 to 2019, except in 2017, and also declined in 2020 amid the challenging Covid-19 environment.

Also, we note that a dividend of 6 cents per share has been issued over the last few years, regardless of increase or decrease in EPS. This may suggest that a stable dividend can be expected from the Company.

A summary of the Group's 5-year historical financials from 2016 to 2020 is shown in **Exhibit 18**.

Exhibit 18: Group's 5-year historical financial results

	2016 S$'000	2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Tin mining & smelting revenue	495,165	460,149	428,673	324,062	266,784
Property revenue	18,310	13,476	27,314	39,575	42,107
Total revenue	513,475	473,625	455,987	363,637	308,891
Earnings before interest and tax (EBIT)	114,358	80,217	126,824	157,005	125,726
Profit after tax	78,579	51,585	82,670	100,354	71,177
Profit attributable to shareholders	67,291	46,432	71,722	84,371	51,483
Operating profit margin (%)	22.3%	16.9%	27.8%	43.2%	40.7%
Net profit margin (%)	15.3%	10.9%	18.1%	27.6%	23.0%
EPS (cents)	16.5	11.4	17.6	20.7	12.7
DPS (cents)	6.0	6.0	6.0	6.0	6.0
Payout ratio (%)	36.4%	52.6%	34.1%	29.0%	47.2%

Source: Company, FPA Financial

(II) Capital management

The Group reported total assets of S$3,055.6 million as at 30 June 2021, compared to S$3,085.9 million as at 31 December 2020. The drop in total assets was mainly contributed by decrease in cash & cash equivalents of S$245.1 million, which was partially offset by a S$136.1 million increase in associates & joint ventures and an increase in inventories of S$13.8 million owing to a larger inventory of refined tin metal.

Meanwhile, total liabilities was S$1,292.8 million as at 30 June 2021 as compared to S$1,359.0 million as at 31 December 2020. The decrease in total liabilities was mainly due to a S$29.5 million drop in trade & other payables and decline in total borrowings of S$34.3 million.

As a result, the Group's total equity increased by S$35.9 million to S$1,762.8 million as at 30 June 2021. This comprised equity attributable to shareholders of S$1,640.3 million and non-controlling interests of S$122.6 million. Given S$1,640.3 million in shareholders' equity, the Group reported a net asset value (NAV) per share of S$4.03, based on approximately 406.8 million issued ordinary shares. A summary of the Group's balance sheet as at 31 December 2020 and 30 June 2021 is shown in **Exhibit 19**.

Exhibit 19: Summary of Group's balance sheet as at 31 Dec 2020 and 30 Jun 2021

[S$'000]	As at 31-Dec-20	As at 30-Jun-21
Total assets	3,085,946	3,055,604
Less: total liabilities	(1,359,008)	(1,292,760)
Total equity	1,726,938	1,762,844
Equity attributable to shareholders	1,537,998	1,640,287
Non-controlling interests	188,940	122,557
	1,726,938	1,762,844
Equity attributable to shareholders	1,537,998	1,640,287
No. of issued ordinary shares ('000)	406,820	406,820
NAV per share (S$)	3.78	4.03

Source: Company

As at 30 June 2021, the Group's total borrowings was S$1,154.2 million, of which S$547.4 million will be repayable within one year and S$606.8 million repayable after one year. Net of cash & cash equivalents of S$211.2 million, net borrowings amounted to S$943.0 million. Accordingly, the Group's gearing ratio, as measured by net borrowings over total equity, stood at 53.5% as at 30 June 2021 compared to 42.4% as at 31 December 2020, as shown in **Exhibit 20**.

Exhibit 20: Group's gearing ratio as at 31 Dec 2020 and 30 Jun 2021

[S$'000]	As at 31-Dec-20	As at 30-Jun-21
Total borrowings	1,188,541	1,154,233
Less: cash & cash equivalents	(456,332)	(211,227)
Net borrowings	732,209	943,006
Gearing ratio (%) (1)	42.4%	53.5%

(1) As measured by net borrowings over total equity

Source: Company, FPA Financial

POTENTIAL CATALYSTS

(I) Straits City integrated development

As earlier noted on page 7, STCPM is currently in the process of developing Straits City, a 40-acre master planned development project in Penang, Malaysia. It is part of the Penang Draft Master Plan 2030, a comprehensive and efficient strategy that integrates modern transportation systems for the benefit of the people of Penang. It is a major step in transforming the landscape of Penang into a modern and smart state.

Straits City is strategically located along the Butterworth waterfront and offers a panoramic view of Penang Island. It is also well-connected to major towns via the two bridges, Butterworth Outer Ring Road, and major roads and highways. Further, it is only a 25-minute drive from the Penang International Airport and a 10-minute drive from the newly gazetted free port, North Butterworth Container Terminal.

The project is an integrated development that will comprise of residential, retail, offices, hotels, and service apartments. Phase 1 of the development is currently in progress, with a 23-storey 4-star hotel scheduled for completion in 2022.

(II) Expanded Far East Hospitality portfolio

As discussed on page 10, the Group's associate Far East Hospitality had pressed on with 3 new hotel openings in Australia, Japan and Singapore in 1H2021 despite the challenging Covid-19 environment. More recently, it made its first foray into the resort and spa category with the opening of the 191-room Oasia Resort Sentosa on September 1. As part of the FEOR Group's focus in building a lodging platform focusing on the two levers of hospitality and purpose-built student accommodation (PBSA), it plans to expand its portfolio to 25,000 hotel rooms and 5,000 PBSA beds by 2025. While the current global hotel outlook remains weak owing to virus uncertainty, further vaccination progress globally should facilitate a recovery in international travel and support a hotel recovery in the longer term.

(III) South Korean logistics portfolio

As discussed on page 6, SRE has ownership in two logistics warehouse properties in South Korea. Currently, the Sky Logis facility in Incheon is ramping up occupancy after completion, while land acquisition for the Anseong property was recently completed.

We note from the CBRE that robust demand from e-commerce and 3PL companies have helped to reduce vacancy in the Greater Seoul area. Most large buildings completed in the Greater Seoul logistics market in 2021 have been able to secure tenants and are already close to full occupancy despite consistent supply. Current market conditions provide suggest that there are opportunities for positive rental reversion, and in turn potential for strong rental income.

(IV) Investment property sales following launch of Shareholders' Club

On 8 September 2021, the Company launched the Straits Trading Shareholders' Club with the goal of engaging active shareholders as a community, enhancing the level of knowledge in the Company's businesses, and enabling co-investment opportunities. The Business Times recently reported that accredited investors in the Shareholders' Club would be able to invest in smaller amounts for a partial ownership of real estate and property. The fractional ownership model would allow several individuals to own part of an asset/property, instead of the entire property itself. This could attract investments in the Group's Cable Road and Gallop Green properties. Thus, we identify this as a potential for the sale of units at the Group residential investment properties in Singapore.

RECENT SHARE PRICE DEVELOPMENT

Year to date, Straits Trading's share price has risen by about 58% to the latest closing of S$3.22. The share price began to climb in late January 2021 and recorded a significant 1-day increase of 19% to S$2.77 on February 4. On the same day, DBS Group Research had initiated coverage on the Company with a "buy" recommendation and a S$3.50 target price.

Subsequently, the share price traded between S$2.55 to S$2.90 over the next few months till August 5, when it rose by 14% to reach a closing price of S$3.22. On the same day, the Company announced the disposal of shareholding in ARA by its associated company, ARA Investment (Cayman) Limited, due to ESR's move to fully acquire ARA, as earlier discussed on page 8.

In terms of insider trades, we note that Mr. Tan Tiong Cheng, an Independent and Non-Executive Director, had increased his stake in the Company through off-market transactions in 2021. Since the start of the year till time of writing, Mr. Tan acquired a total of 70,000 shares over 3 separate transactions at a price per share ranging from S$2.65 to S$0.318. The latest acquisition was on 1 September 21 when he acquired 20,000 shares at S$0.318 per share. Following the acquisitions, Mr. Tan currently holds a total of 70,000 shares in the Company, equivalent to a 0.017% stake.

The details of Mr. Tan's share acquisitions are summarised in **Exhibit 21**.

Exhibit 21: Details of share acquisitions by Mr. Tan

Date of acquisition	No. of shares acquired	Total acquisition price (S$)	Price per share (S$)	Closing share price (S$)	Total interest after acquisition [1]	
					No. of shares	Shareholding %
3-May-21	30,000	81,000	2.700	2.700	30,000	0.007%
5-May-21	20,000	53,000	2.650	2.630	50,000	0.012%
31-Aug-21	20,000	63,600	3.180	3.180	70,000	0.017%
Total	**70,000**	**197,600**	-	-	-	-

(1) Comprising direct and deemed interests

Source: Company, FPA Financial

FINANCIAL PROJECTION

We will provide our projections for the Group's revenue, earnings and dividends.

(I) Revenue projection

First, we will consider the Group's total revenue breakdown in terms of geographical segment. Historically, the Group derives the bulk of its revenue from Malaysia, through income generated by tin mining & smelting activities by MSC. Revenue from other geographical markets like Singapore, Australia, Japan, China and the UK are derived from rental income generated by the Group's investment properties in the respective segments. The historical geographical breakdown of the Group's total revenue is shown in **Exhibit 22**.

Exhibit 22: Geographical breakdown of the Group's total revenue

	Full year ended Dec 31			Half year ended 30 June	
	2018	2019	2020	2020	2021
Geographical segment	S$'000	S$'000	S$'000	S$'000	S$'000
Australia	8,956	16,710	21,274	10,427	13,353
China	3,680	5,821	6,050	2,470	4,050
Japan	10,273	14,326	9,632	5,550	90
Malaysia	428,852	324,243	266,951	115,262	195,640
Singapore	4,226	2,537	2,542	1,307	1,261
UK	-	-	2,442	-	4,629
Total	**455,987**	**363,637**	**308,891**	**135,016**	**219,023**

Source: Company, FPA Financial

To derive a projection of total revenue for 2H2021 and 2022, we will project revenue generated by the individual geographical segments.

Australia

Revenue for the Australia segment would be largely derived from rental income generated by SRE's logistics portfolio in Adelaide & Melbourne and the office building at 45 St Georges Terrace in the Perth CBD. First considering the Australian industrial and logistics sector, we note a robust outlook supported by strong leasing demand. The demand for prime warehousing facilities is currently surging amid accelerating growth in online /e-commerce usage and rising investment in supply chain drivers by businesses. There are signs that demand could outstrip supply, and vacancy is declining. With renewed lockdowns in Australia forced by the spread of the Delta variant, there could be further impetus to e-commerce demand, thereby increasing the need for further distribution and warehouse space. Overall, the current evolving demand and supply dynamics seem to point toward strong potential for rental growth in the logistics sector. Against this backdrop, we foresee the potential for SRE's logistic portfolio to deliver stronger rental income going forward.

Meanwhile, a more moderate performance could be expected from 45 St Georges Terrace. In the Perth CBD, office leasing conditions improved in Q2 2021, with no new major completions over the Q2 2021. However, the vacancy rate moderately slightly 0.5 percentage points (pps) over the quarter, and prime gross effective rents remained stable in June 2021 from a year ago. Nevertheless, a further improvement in demand, coupled with low future supply pipeline in the short to medium term, could support some upside in rental growth.

For 2H2021, we would assume the same revenue of S$13.4 million generated during 1H2021. Accordingly, the projected revenue for the Australia segment in 2021 would be S$26.7 million, as shown in **Exhibit 23**. Largely on the back of a positive outlook on rental income performance for the Australian logistics portfolio, we would assume a 5% y-o-y increase in revenue for 2022 to S$28.0 million = [105% x S$26.7 million in projected revenue for 2021], considering potential rental growth for both the logistics and office sectors.

Exhibit 23: Projected revenue for the Australia segment

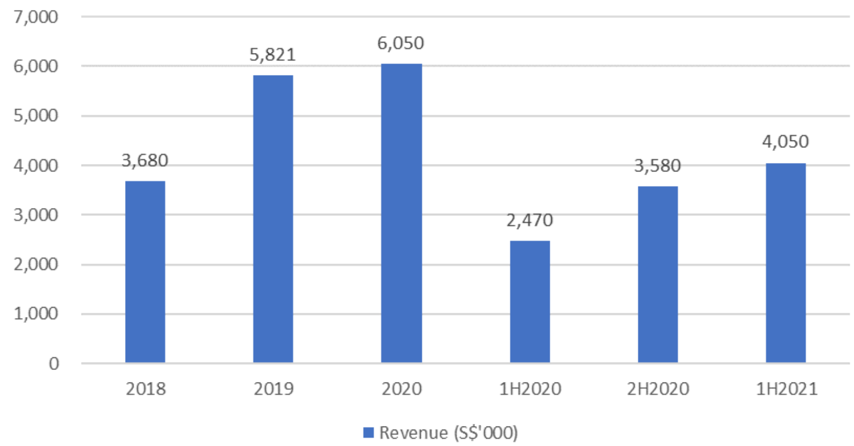
	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Australia segment revenue	10,427	10,847	13,353	13,353	26,706	28,041

Source: Company, FPA Financial

China

Revenue for the China segment would be derived from rental income generated from the retail mall in Chongqing – My Place Mall, Chongqing. Over the last few years, revenue has steadily increased as shown in **Exhibit 24**.

Exhibit 24: Revenue from the Group's China segment



Domestic consumption in China continues to recover strongly, with retail sales of consumer goods increasing by 20.7% y-o-y in the first 7 months, according to the National Bureau of Statistics China. In its 14th Five Year plan, the Chinese government highlighted a key goal of raising domestic consumption through the 'dual circulation' model. China's transition towards a more consumption-driven economy will provide a strong boost to retail sales going forward.

In terms of supply and demand dynamics in China's retail market, we note from CBRE that high quality new supply is driving strong take up. In Q2 2021, new shopping mall supply and net absorption in 18 major cities tracked by CBRE totalled 2.14 million sqm and 2.12 million sqm respectively, the strongest quarterly figure since the onset of the Covid-19 pandemic. Overall, vacancy fell by 0.3 pps from the previous quarter to 7.7%. Ground floor shopping mall rents continued to rise, registering growth of 0.6% y-o-y to reach RMB19.7 per sqm per day.

Thus, we note an improving outlook for the retail market in China. The nation's strong economic growth and transition towards a more consumption-driven economy will provide a strong boost to retail sales going forward. Evolving demand and supply dynamics could favour a potential increase in retail rents as vacancy declines. However, the main concern would be prolonged lockdown measures owing to the spread of the Delta variant, which could hurt leasing demand and push vacancy rates up.

Considering the above, we would assume the same revenue of S$4.1 million generated during 1H2021 for 2H2021 Accordingly, the projected revenue for the Australia segment in 2021 would be S$8.1 million, as shown in **Exhibit 25**. For 2022, we will factor the potential for an easing of lockdown measures in China as the Covid-19 situation comes under control. This could stimulate an overall recovery in retail leasing demand, thereby supporting upside for rental growth. Accordingly, we will assume a 5% y-o-y increase in revenue to S$8.5 million = [105% x S$8.1 million] for 2022.

Exhibit 25: Projected revenue for the China segment

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
China segment revenue	2,470	3,580	4,050	4,050	8,100	8,505

Source: Company, FPA Financial

Japan

The Group had divested its portfolio of 9 freehold residential properties in Japan in 2020. For 2H2021, we would assume the same revenue generated in 1H2021 of S$90,000, thus implying revenue for full-year 2021 of S$180,000, as shown in **Exhibit 26**. We will further assume this figure for 2022.

Exhibit 26: Projected revenue for the Japan segment

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Japan segment revenue	5,550	4,082	90	90	180	180

Source: Company, FPA Financial

Malaysia

Revenue for the Malaysia segment would be mainly derived from revenue generated from tin mining & smelting, which is the largest contributor to the Group's overall revenue.

Currently, tin prices continue to trend upwards, lifted by continued demand for tin solder in consumer electronics, and supply disruptions due to lockdowns in tin producing countries around the world, including Malaysia. According to Fitch, high prices are expected to continue through the year, with the LME three-month tin surging to a record high during Q3 2021, having more than doubled from the Covid-19 low of less than $15,000/tonne in March 2021 to over $30,000/tonne in July. We also note that tin mine supply is expected to grow strongly in 2021 due to both high prices by historic standards and reduced disruption to mining operations from the Covid-19 pandemic.

However, there is a risk that more stringent environmental regulations in countries such as China, Malaysia and Indonesia may slow tin output growth. Latest projections by Fitch suggest an annual output growth of 1.5% over 2021-2030.

As noted on page 19, the Group's tin mining & smelting revenue has exhibited a consistent downward trend over the last few years. Following this trend, it could suggest that tin mining & smelting revenue could further moderate in 2021 and 2022.

Importantly, MSC suspended its tin mining and smelting operations from June 4 to June 14 in line with the Malaysian Government's implementation of the total lockdown across the country to curb the spread of the Covid-19 pandemic. It had issued a notice of force majeure to its customers as the disruption in production will lead to a slowdown in the company's scheduled delivery of tin. MSC also announced that the temporary suspension of its operations is expected to have an impact on the it's operations and financial performance for financial year ending December 31, 2021. Considering the above, we would assume a 30% y-o-y decline in revenue for the Malaysia segment to S$106.2 million = [70% x S$151.7 million revenue in 2H2020] during 2H2021, in view of weaker tin mining & smelting revenue. Accordingly, projected revenue for the Malaysia segment in 2022 would be S$301.8 million, as shown in **Exhibit 27**.

Looking further ahead in 2022, the potential for a resumption in mining activities along with elevated tin prices could support a recovery. Further, as noted on page 9, MSC is currently relocating to the new smelting facility at Pulau Indah, Port Klang, which is expected to achieve a higher extractive yield by 50% using the more efficient TSL furnace with lower operational costs and carbon footprint. Thus, we would assume a 10% y-o-y growth in tin mining & smelting revenue, and in turn revenue for the Malaysia segment to S$332.0 million in 2022. We have summarised our projection of revenue for the Malaysia segment in 2021 and 2022 in **Exhibit 27**.

Exhibit 27: Projected revenue for the Malaysia segment

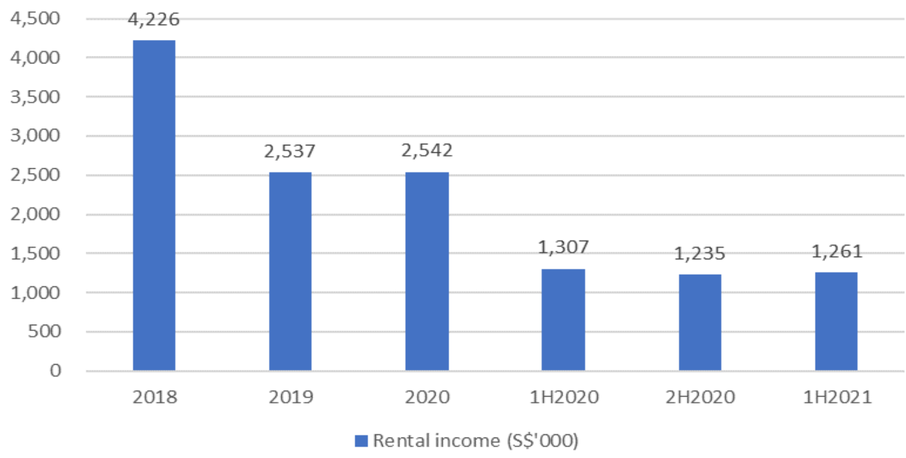
	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Malaysia segment revenue	115,262	151,689	195,640	106,182	301,822	332,005

Source: Company, FPA Financial

Singapore

Revenue for the Singapore segment would be derived from the Group's residential portfolio in Singapore, comprising of 3 residential properties at 13 Woollerton Park, Cable Road and Nathan Road. Looking at the annual trend in 2019 and 2020, as well as that for the last 3 half-year periods, we note that the rental income generated has been relatively stable, as shown in **Exhibit 28**.

Exhibit 28: Rental income generated by the Group's residential portfolio in Singapore



Source: Company, FPA Financial

The notable drop in 2019 from 2018 was in part due to the sale of 3 units at the Gallop Green condominium at 13 Woollerton Park, as shown in **Exhibit 29**. More recently, units were also sold at the Cable Road property.

Exhibit 29: Group's residential portfolio in Singapore

Residential property	31-Dec-18	31-Dec-19	31-Dec-20	30-Jun-21
Gallop Green condominium	5 units	2 units	1 unit	1 unit
Cable Road	6A/8/8A/10/12	6A/8/8A/10/12	6A/8/8A/10/12	8 & 8A
Nathan Road	10/10A/10B	10/10A/10B	10/10A/10B	10/10A/10B

Source: Company, FPA Financial

Considering the above, we would assume the same amount of rental income of S$1.3 million in 1H2021 for 2H2021. Accordingly, the projected revenue for the Singapore segment for 2021 would be S$2.5 million. We will further assume this figure for 2022, assuming no unit sales during the period. We have summarised our projected revenue for the Singapore segment in 2021 and 2022 in **Exhibit 30.**

Exhibit 30: Projected revenue for the Singapore segment

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Singapore segment revenue	1,307	1,217	1,261	1,261	2,522	2,522

Source: Company, FPA Financial

UK

In the UK, revenue is derived from the Group's prime business park, Bourne Business Park, located in Addlestone, Surrey within the Greater London area. As noted on page 6, the property comprises six standalone office buildings.

In its August 2021 report on Greater London & South East offices, Savills noted that the resurgence in transactional activity in the Greater London & South East office market has continued as the UK begins to emerge out the Covid-19 pandemic. During Q2 2021, there was 775,000 sq transacted, which was 4% above the five-year quarterly average.

In terms of demand, take-up totalled 1.87 million sq ft in 1H2021, which was 22% above the five-year average. We note from Savills that the flight to quality in the market has been evident, with 68% of take-up recorded being of Grade A quality, which is the highest proportion in the last three years. The firm expects this trend to continue as the UK emerges out of the pandemic, highlighting that Grade A office buildings which can enhance the workplace experience and satisfy environmental, social and governance criteria have proved attractive to occupiers.

Meanwhile, supply levels have remained stable with 13.4 million sq ft currently available, which is a 1% increase from 2020, but 19% below the long-term average. This would highlight the current supply shortage present in the market, according to Savills. Occupier demand is focused on leasing Grade A space – the current quantum of Grade A space equates to 46% of total available supply. Looking ahead, the development pipeline is limited with 1.3 million sq ft under construction, which equates to five months of take-up in an average year.

We also note from Savills that the ongoing flight to quality from occupiers has resulted in rental growth continuing in the market, with average Grade A rents have increased by 16% in the last five years. The rental growth has been driven by a combination of limited supply and new developments of unprecedented high-quality specification setting new rental tones.

Against the above backdrop, we note a strong outlook for the Greater London office market. Demand has rebounded, in particular for Grade A quality offices, as leasing activity picks up with a resumption of activities in the UK. At the same time, current supply is in shortage and future pipeline supply is limited. The evolving supply and demand dynamics and the introduction of new high-quality office developments could provide a strong foundation for further rental growth going forward.

Given the above, we would assume the same amount of UK segment revenue in 1H2021 of S$4.6 million for 2H2021. Accordingly, the projected revenue for the UK segment in 2021 would be S$9.3 million, as shown in **Exhibit 31**. For 2020, we would assume a 10% y-o-y increase in revenue to S$10.2 million = [110% x S$9.3 million in projected revenue for 2021], given the possibility of stronger rental growth on a further surge in office demand as work-from-home dynamics potentially ease.

Exhibit 31: Projected revenue for the UK segment

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
UK segment revenue	-	2,442	4,629	4,629	9,258	10,184

Source: Company, FPA Financial

Total revenue projection

Given the above projections for the individual geographical segments, the projected total revenue for 2021 and 2022 would be S$348.6 million and S$381.4 million, as shown in **Exhibit 32**.

Exhibit 32: Projected total revenue for 2021 and 2022

Geographical segment	2021 forecast S$'000	2022 forecast S$'000
Australia	26,706	28,041
China	8,100	8,505
Japan	180	180
Malaysia	301,822	332,005
Singapore	2,522	2,522
UK	9,258	10,184
Total	**348,588**	**381,437**

Source: FPA Financial

(II) Earnings projection

Given our projected revenue figures for 2021 and 2022, we now estimate the Group's earnings for these periods.

Dividend income

As noted on page 16, dividend income fell by 11.0% y-o-y to S$4.0 million in 1H2021. Looking at the historical trend, we note that dividend income has declined over the last 5 years, as shown in **Exhibit 33**.

Exhibit 33: Historical dividend income from 2016 to 2020

	2016 S$'000	2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Dividend income from:					
Investment securities at fair value through profit or loss	14,335	3,235	2,177	1,831	1,330
Investment securities at fair value through other comprehensive income	10,349	10,904	10,658	9,347	7,303
Total	**24,684**	**14,139**	**12,835**	**11,178**	**8,633**

Source: Company

In our projection, we would assume the same dividend income of S$4.0 million in 1H2021 for 2H2021. This would imply a projected dividend income of S$8.0 million for 2021, in line with the overall decreasing trend as seen over the last few years. We will further assume this figure for 2022.

Interest income

Looking at the historical data, we note an inconsistent trend in interest income over the last 5 years, as shown in **Exhibit 34**. In particular, the figures for 2018 and 2019 were elevated owing to significantly higher receivables from the Group's associates & joint ventures.

Exhibit 34: Historical interest income from 2016 to 2020

	2016 S$'000	2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Interest income from:					
Financial assets	8,936	9,160	3,971	1,455	1,047
Deposits	1,903	2,332	3,396	3,339	6,453
Receivables	514	99	89	77	112
Receivables from associates & joint ventures	1,387	6,273	38,509	38,200	3,910
Total	**12,740**	**17,864**	**45,965**	**43,071**	**11,522**

Source: Company

We note a similar scenario in 1H2021, where notes issued by a joint venture resulted in a large increase in interest income to S$15.2 million from S$6.9 million in 1H2020. In our projection, we would assume the S$8.3 million increase in 1H2021 to be fully attributed to the additional interest income from the new joint venture notes. Assuming that the notes are not repaid in 2H2021, we would then add the S$8.3 million contribution to interest income of S$4.6 million in 2H2020 to derive S$12.9 million in projected interest income for 2H2021. Accordingly, the projected full-year interest income in 2021 would be S$28.1 million, as shown in **Exhibit 35**. For 2022, we would assume that the notes would be repaid and thus exclude a full year impact of S$16.6 million = [2 x S$8.3 million in 1H2021] from the projected amount in 2021. Accordingly, the projected income for 2022 would be S$11.5 million = [S$28.1 million in projected interest income for 2021 – S$16.6 million].

Exhibit 35: Projected interest income for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Interest income	6,881	4,641	15,175	12,935	28,110	11,522

Source: Company, FPA Financial

Fair value changes in investment properties

During 1H2021, the Group recorded S$47.1 million in fair value gains in investment properties, compared to a S$0.8 million loss in 1H2020. For 2H2021, we would assume neither gains nor losses, thereby implying gains of S$47.1 million for full-year 2021. Similarly for 2022, we would adopt a conservative approach to assume no fair value gains or losses.

Other income

Looking at the historical trend, we note that the trend in other income has been inconsistent over the last 5 years, as shown in **Exhibit 36**.

Exhibit 36: Historical other income from 2016 to 2020

Breakdown of other income	2016 S$'000	2017 (1) S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Net gain on disposal of investment properties	23,887	510	1,533	7,440	13,719
Net gain on disposal of property, plant & equipment	-	-	-	-	42
Write back of provision	2,195	-	-	-	-
Net gain/(loss) on disposal of subsidiaries, associates and joint ventures					
- Foreign exchange impact on capital reduction	1,727	487	(1,459)	(814)	2,683
- Others	-	(3,899)	653	(4,705)	-
Net (loss)/gain on disposal of equity securities at fair value through profit and loss (FVTPL)	(3,261)	(1,726)	1,664	1,300	(1,875)
Net loss on disposal of derivatives at FVTPL	(2,183)	(107)	-	-	-
Fair value changes in financial assets:					
- Held-for-trading equity securities at FVTPL	4,710	8,509	(3,730)	5,330	1,040
- Derivatives at FVTPL	366	225	758	(319)	(92)
- Ineffective portion of derivatives designated as hedging instruments in cash flow hedge	(177)	(266)	370	161	(3,085)
Fund related fees	-	2,949	4,814	3,201	2,400
Negative goodwill from acquisition of subsidiaries	-	198	-	-	-
Other operating income	5,568	2,930	4,208	3,904	5,448
Total	**32,832**	**9,810**	**8,811**	**15,498**	**20,280**

(1) Restated figures
Source: Company, FPA Financial

As noted on page 16, other income increased to S$14.3 million in 1H2021 from S$0.4 million a year ago. During 1H2021, we note that the Group had sold 3 units at one of its Singapore residential investment property, Cable Road, which could explain the net gain on disposal of investment properties of S$5.7 million. We also note from the Company in the latest half-year financial statements that a unit of investment property had been reclassified as asset held for sale as at 30 June 2021 and the sale was completed in July 2021. As we do not have information regarding which residential property has transacted this new unit sale, we would as a proxy assume a S$1.9 million = [S$5.7 million / 3 units sold at Cable Road] net gain on disposal of this unit of investment property in 2H2021, based on the per unit net gain for the 3 Cable Road units sold in 1H2021.

Meanwhile, we would assume no net loss or gain on disposal of subsidiaries, associates & joint ventures as well as equity securities at FVTPL, and no impact of fair value changes in financial assets in 2H2021. We would further assume the same amount of fund related fees and other operating income in 1H2021 for 2H2021. Accordingly, the projected other income for 2H2021 would be S$10.6 million, and in turn S$24.4 million for full year 2021, as shown in **Exhibit 37**.

For 2022, we would assume the Group does not sell any units of its investment properties, and in turn no net gain on disposal of investment properties. We would also assume no net loss or gain on disposal of subsidiaries, associates & joint ventures and no net loss or gain on disposal equity securities at FVTPL, and no impact of fair value changes in financial assets. We would further assume the same amount of fund related fees and other operating income as in 2021. Accordingly, the projected other income for 2022 would be S$16.3 million, as shown in **Exhibit 37**.

Exhibit 37: Projected other income for 2H2021 and full-year 2021

	Actual	Forecast		
	1H2021	2H2021	2021	2022
Breakdown of other income	S$'000	S$'000	S$'000	S$'000
Net gain on disposal of investment properties	5,739	1,913	7,652	-
Net gain/(loss) on disposal of subsidiaries, associates and joint ventures				
- Foreign exchange impact on capital reduction	565	-	565	-
- Others	(2)	-	(2)	-
Net (loss)/gain on disposal of equity securities at fair value through profit and loss (FVTPL)	(8,780)	-	(8,780)	-
Fair value changes in financial assets:				
- Held-for-trading equity securities at FVTPL	7,623	-	7,623	-
- Derivatives at FVTPL	(436)	-	(436)	-
- Ineffective portion of derivatives designated as hedging instruments in cash flow hedge	1,467	-	1,467	-
Fund related fees	1,155	1,155	2,310	2,310
Other operating income	6,999	6,999	13,998	13,998
Total	**14,330**	**10,067**	**24,397**	**16,308**

Source: Company, FPA Financial

Employee benefits expense

Employee benefits expense mainly include wage, salaries & other allowances and defined contribution plans. During 2019 and 2020, provisions were made for voluntary separation compensation in relation to an internal restructuring exercise for affected employees at the Butterworth smelter in Malaysia, as shown in **Exhibit 38**.

Exhibit 38: Historical employee benefits expense

	2016 S$'000	2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Wages, salaries and other allowances	28,765	28,158	27,158	29,962	29,215
Defined contribution plans	2,323	2,536	2,588	2,749	2,455
Provision for voluntary separation compensation (1)	-	-	-	4,899	90
Employee benefits expense	**31,088**	**30,694**	**29,746**	**37,610**	**31,760**

(1) Due to internal restructuring exercise for the affected employees at the Butterworth smelter in Malaysia
Source: Company, FPA Financial

During 1H2021, employee benefits expense rose by 5.0% y-o-y to S$16.1 million likely in part from increased wages & salaries with a resumption in the Group's business activities. In 2H2021, we could see a drop in employee benefits expense given disrupted operations due to the spread of the Delta variant. Earlier in June 2021, MSC had temporarily suspended its tin mining and smelting operations in adherence to the enforcement of the full Movement Control Order 3.0.

Given the above, we would assume a 5% y-o-y decline in employee benefits expense in 2H2021 to S$15.6 million = [95% x S$16.4 million in employee benefits expense in 2H2020]. Accordingly, the projected employee benefits expense for 2021 would be S$31.7 million, as shown in **Exhibit 39**. For 2022, in view of a further resumption of business operations as Covid-19 health concerns potentially ease, we would assume a 10% y-o-y increase to S$34.9 = [110% x S$31.7 million]

Exhibit 39: Projected employee benefits expense for 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Employee benefits expense	15,321	16,439	16,086	15,617	31,703	34,873

Source: Company, FPA Financial

Depreciation expense

During 1H2021, depreciation expense amounted to S$3.6 million compared to S$4.2 million a year ago. For 2H2021, we would assume the same depreciation expense as in 1H2021, bringing the total amount for 2021 to S$7.3 million. We will further assume this figure for 2022.

Amortisation expense

Amortisation expense amounted to S$207,000 in 1H2021 compared to S$177,000 in 1H2020. For 2H2021, we would assume the same amortisation expense as in 1H2021, bringing the total amount for 2021 to S$0.4 million. We will further assume this figure for 2022.

Impairment losses

During 1H2021, a total of S$9.8 million in impairment losses were incurred in relation to the impairment of a land under development in Butterworth pursuant to the revaluation of the property under development, as well as impairment of land mining rights and mine properties in the Resources segment. For 2H2021, we would assume no allowance made for impairment losses, and thus full-year 2021 impairment losses would be S$9.8 million. We will assume no impairment losses for 2022.

Costs of tin mining & smelting

Looking at historical data, we note that the cost ratio for tin mining & smelting has generally moderated over the last few years to stabilize at around 83% in 2019 and 2020, as shown in **Exhibit 40**.

Exhibit 40: Historical cost ratio for tin mining & smelting

	2016 S$'000	2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Tin mining & smelting revenue	496,165	460,149	428,673	324,062	266,784
Cost of tin mining & smelting	447,000	423,314	379,804	271,738	222,944
Cost ratio for tin mining & smelting	90.1%	92.0%	88.6%	83.9%	83.6%

Source: Company, FPA Financial

In 1H2021, the cost ratio was about 81% compared to about 90% during 1H2020. For 2H2021, we would assume the same cost ratio as 1H2021, with an implied cost of tin mining & smelting of S$86.1 million. Accordingly, this would imply a projected cost of tin mining & smelting of S$244.7 million for full year 2021, as shown in **Exhibit 41**.

For 2022, we anticipate the cost ratio to moderate further, given the more efficient smelting facility at Pulau Indah, Port Klang which would help to lower operational costs. As noted on page 9, the completion of the relocation to the new facility is expected in late 2021 or early 2022. Given the current adverse Covid-19 situation in Malaysia, we could expect delay in the relocation process till the later part of 2022. If so, greater cost efficiency may only take effect during 2H2022. Thus, we would assume a moderate decline in the cost ratio to 75% for 2022, and thus the implied cost of tin mining & smelting during the period would be S$248.9 million, shown in **Exhibit 41**.

Exhibit 41: Projected cost ratio for tin mining & smelting in 2021 and 2022

	Actual			Forecast		
[S$'000]	1H2020	2H2020	1H2021	2H2021	2021	2022
Tin mining & smelting revenue	115,173	151,611	195,555	106,128	301,683	331,851
Cost of tin mining & smelting	103,492	119,452	158,617	86,070	244,687	248,888
Cost ratio for tin mining & smelting	89.9%	78.8%	81.1%	81.1%	81.1%	75.0%

Source: Company, FPA Financial

Finance costs

As noted on page 17, finance costs rose by 25.3% y-o-y to S$17.3 million in 1H2021 from S$13.8 million in 1H2020. We note that this could in part be due to higher interest expenses given higher borrowings. Over the 1-year period from 30 June 2020 to 30 June 2021, the Group's total borrowings increased by S$145.0 million.

Recently, interest rates have started to move up after remarks by the Federal Reserve (Fed) which suggest sooner-than-expected monetary policy tightening. Given that the Fed may only start tapering its asset purchases towards the end of 2021, we do not expect interest rates to rise substantially for the time being. However, moving into 2022, when the Fed could tighten policy more aggressively, we could expect upward pressure on interest rates.

Given the above, we would assume the same finance costs of S$17.3 million in 1H2021 for 2H2021, thus implying finance costs for full-year 2021 of S$34.6 million. For 2022, we would assume a 10% y-o-y increase in finance costs to S$38.0 million = [110% x S$34.6 million projected finance costs for 2021].

Other expenses

Looking at the historical trend, we note that the trend in other income has been inconsistent over the last 5 years. In 2020, other expenses dropped significantly to S$6.0 million from S$31.3 million in 2019. This was given that the Group had recorded exchange gains of S$19.0 million compared to a loss of S$2.1 million in 2019, as shown in **Exhibit 42**.

Exhibit 42: Historical other expenses from 2016 to 2020

Other expenses breakdown	2016 S$'000	2017 S$'000	2018 S$'000	2019 S$'000	2020 S$'000
Administrative expenses	5,780	9,952	10,610	8,312	6,239
Professional fees	2,275	-	-	-	-
Marketing & distribution expenses	2,478	2,847	3,127	4,478	2,370
Property related management fees	5,103	2,583	2,348	3,418	3,563
Upkeep and maintenance expenses of properties	2,735	2,217	3,710	5,415	7,414
Property related taxes	2,302	1,631	1,698	2,409	2,590
Operating lease expenses	2,302	1,485	1,485	33	17
Brokerage fees	911	314	158	158	124
(Reversal of impairment)/Impairment of trade receivables	3,176	-	(965)	-	42
Exchange losses/(gains)	2,153	(1,144)	10,481	2,093	(19,007)
Other expenses	3,049	2,098	4,399	5,009	2,615
	32,264	**21,983**	**37,051**	**31,325**	**5,967**

Source: Company

In 1H2021, other expenses more than doubled to S$12.6 million in 1H2021 from S$4.7 million a year ago, as shown in **Exhibit 43**. This was mainly as the Group incurred exchange gains of S$1.0 million as compared to losses of S$6.4 million in 1H2020.

For 2H2021, we would assume a 10% increase from 1H2021 for components including administrative expenses, marketing & distribution expenses, property related management fees, upkeep & maintenance expenses of properties, property related taxes, operating expenses and other expenses, in consideration of resumption of operational activities by the Group. Meanwhile, we would assume no professional fees, reversal of impairment/impairment of trade receivables and exchange gains or losses. Accordingly, the projected other expenses for 2H2021 would be S$12.8 million. In turn, the projected amount for full year 2021 would be S$25.4 million, as shown in **Exhibit 43**.

For 2022, we would assume a larger 20% y-o-y increase for administrative expenses, marketing & distribution expenses, property related management fees, upkeep & maintenance expenses of properties, property related taxes, operating expenses and other expenses. Similar for 2H2021, we would assume no professional fees, reversal of impairment/impairment of trade receivables and exchange gains or losses in 2022. Accordingly, the projected other expenses would be S$29.3 million for the period, as shown in **Exhibit 43**.

Exhibit 43: Projected other expenses for 2021 and 2022

	Actual		Forecast		
	1H2020	1H2021	2H2021	2021	2022
Other expenses breakdown	S$'000	S$'000	S$'000	S$'000	S$'000
Administrative expenses	2,343	3,590	3,949	7,539	9,047
Professional fees	-	-	-	-	-
Marketing & distribution expenses	1,089	652	717	1,369	1,643
Property related management fees	1,545	1,356	1,492	2,848	3,417
Upkeep and maintenance expenses of properties	2,731	3,788	4,167	7,955	9,546
Property related taxes	1,216	1,078	1,186	2,264	2,717
Operating lease expenses	25	4	4	8	10
Brokerage fees	74	76	76	152	152
(Reversal of impairment)/Impairment of trade receivables	127	(8)	-	(8)	-
Exchange losses/(gains)	(6,425)	966	-	966	-
Other expenses	1,942	1,087	1,196	2,283	2,739
	4,667	**12,589**	**12,787**	**25,376**	**29,271**

Source: Company, FPA Financial

Profit before share of results of associates & joint ventures and tax

Given the above earnings projections, the projected profit before share of results of associates & joint ventures and tax for 2021 and 2022 would be S$102.4 million and S$58.5 million respectively, as shown in **Exhibit 44** on the next page.

Exhibit 44: Projected profit before share of results of associates & joint ventures and tax in 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Total revenue	348,588	381,437
Other items of income/(loss)		
Dividend income	8,012	8,012
Interest income	28,110	11,522
Fair value changes in investment properties	47,112	-
Other income	24,397	16,308
	456,219	417,279
Other items of expense		
Employee benefits expense	(31,703)	(34,873)
Depreciation expense	(7,282)	(7,282)
Amortisation expense	(414)	(414)
Impairment losses	(9,817)	-
Costs of tin mining & smelting	(244,687)	(248,888)
Finance costs	(34,552)	(38,007)
Other expenses	(25,376)	(29,271)
Total expenses	(353,830)	(358,735)
Profit before share of results of associates & joint ventures and tax	**102,389**	**58,543**

Source: FPA Financial

Share of results of associates & joint ventures

As noted on page 21, we believe the Group's Korean joint venture could be a potential catalyst given the positive outlook on the logistics sector in South Korea. However, contribution from Far East Hospitality could remain weak for some time given ongoing virus uncertainty. The international travel backdrop has improved but sporadic waves of new virus infections have disrupted to recovery trajectory, and thus a substantial improvement may only be seen beyond 2022.

Considering the above, we would assume zero share of results from associates & joint ventures in 2H2021. Accordingly, the projected share of results in 2021 would be S$84.3 million as recorded during 1H2021. For 2022, we would adopt a conservative approach to further assume no impact from share of results from associates & joint ventures.

Income tax expense

In our projection, we would assume a 17.0% statutory tax rate on the Group's profit before share of results of associates & joint ventures and tax to derive projected income tax expense of S$17.4 million and S$10.0 million in 2021 and 2022 as follows:

- Projected income tax expense for 2021 = 17% x S$102.4 million = S$17.4 million
- Projected income tax expense for 2021 = 17% x S$58.5 million = S$10.0 million

Projected profit after tax

Adjusting for the projected share of results from associates & joint ventures and income tax expenses, the projected after-tax profit for 2021 and 2022 would be S$169.3 million and S$48.6 million respectively, as shown in **Exhibit 45**.

Exhibit 45: Projected profit after tax

[S$'000]	2021 forecast	2022 forecast
Total revenue	348,588	381,437
Other items of income/(loss)		
Dividend income	8,012	8,012
Interest income	28,110	11,522
Fair value changes in investment properties	47,112	-
Other income	24,397	16,308
	456,219	417,279
Other items of expense		
Employee benefits expense	(31,703)	(34,873)
Depreciation expense	(7,282)	(7,282)
Amortisation expense	(414)	(414)
Impairment losses	(9,817)	-
Costs of tin mining & smelting	(244,687)	(248,888)
Finance costs	(34,552)	(38,007)
Other expenses	(25,376)	(29,271)
Total expenses	(353,830)	(358,735)
Profit before share of results of associates & joint ventures and tax	102,389	58,543
Share of results of associates & joint ventures	84,332	-
Income tax expense	(17,406)	(9,952)
Profit after tax	**169,315**	**48,591**

Projected net profit after tax and minority interest

After accounting for non-controlling interest, the projected net profit after tax and minority interest for 2021 and 2022 would be S$147.7 million and S$24.8 million respectively.

Nevertheless, as earlier discussed on page 9, we would consider the impact of the ARA stake disposal in our earnings projection. Assuming the transaction was completed in 2022, we would as a proxy include the full amount of adjustment of S$716.9 million into our projected net profit after tax and minority interest for 2022. This would yield an adjusted net profit after tax and minority interest of S$741.7 million for 2022, as shown in **Exhibit 46** on the next page.

As a result, the projected EPS for 2021 and 2022 would be 36.3 cents and 182.3 cents respective, as shown in **Exhibit 46** on the next page.

Exhibit 46: Projected EPS for 2021 and 2022

[S$'000]	2021 forecast	2022 forecast
Profit attributable to:		
Owners of the Company	147,652	24,761
Non-controlling interests (1)	21,663	23,830
	169,315	48,591
Net profit after tax and minority interest	147,652	24,761
Add: earnings impact of ARA stake disposal	-	716,900
Adjusted net profit after tax and minority interest	**147,652**	**741,661**
Weighted average no. of shares in issue ('000)	406,910	406,910
EPS (cents)	**36.3**	**182.3**

(1) Assumed based on a 10% y-o-y increase in both 2021 and 2022

Source: FPA Financial

(III) Dividends projection

As noted on page 19 the Group has issued consistent dividend of 6 cents per share over the last few years, regardless of increase or decrease in EPS This would suggest that a stable dividend could be expected Thus, we would assume the same dividend of 6 cents per share for 2021. For 2022. given the expected strong impact of the ARA disposal transaction on Group earnings, we would assume DPS to double to 12.0 cents.

VALUATION ANALYSIS

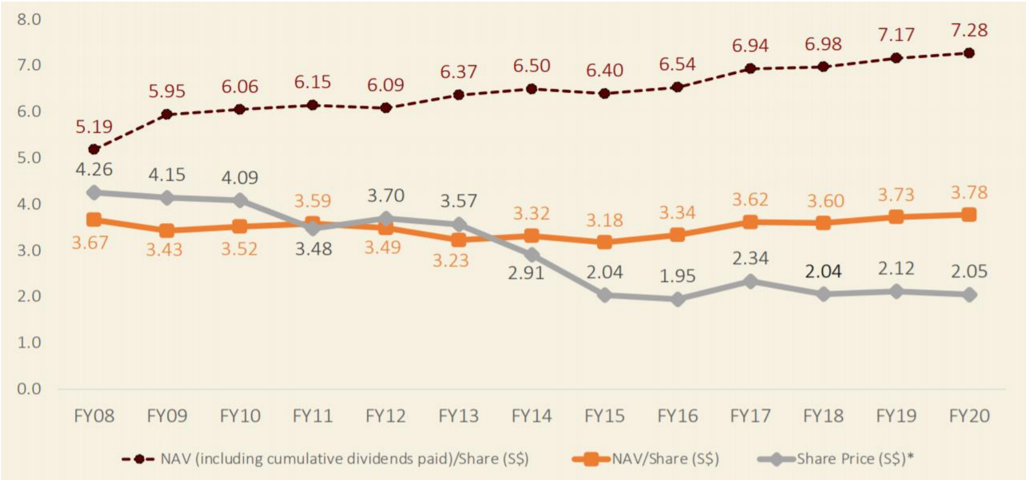
We will present our valuation analysis in 3 segments. We will first review the valuation impact of Straits Trading's disposal of its stake in ARA. We will then perform a peer comparison analysis to review how the Group's listed subsidiary, MSC, is faring against industry peers in terms of valuation metrics. Finally, we will conclude with a summary of our views on the Company's valuation.

(I) Valuation impact of the disposal of stake in ARA

As discussed in the 'Capital Management' sub-section on page 20, the Group recorded shareholders' equity of S$1,640.3 million as at 30 June 2021, compared to S$1,538.0 million as at 31 December 2020. Based on approximately 406.8 million issued ordinary shares, the Group reported a net asset value (NAV) per share of S$4.03 as at 30 June 2021.

Over the last few years, the Group has managed to grow its net assets through the recycling of capital and acquiring new assets. As highlighted in **Exhibit 47**, NAV per share has steadily increased over the last few years. It has also maintained above Straits Trading's share price, which would suggest that the Company has been trading at a discount to its net assets.

Exhibit 47: Trend in NAV per share over the years



**Closing price as at the last trading day of the financial year/period*
Source: Company

On August 4, prior to the Company's announcement regarding the disposal of the ARA stake, the closing share price was at S$2.83. At this price, the Group was trading at a P/NAV multiple of 0.59x based on the reported NAV per share of S$4.03 as at 30 June 2021. At the current share price of S$3.220, factoring in the market's reaction to the news regarding the disposal of the ARA stake, the Group is trading at a P/NAV multiple of 0.80x based on the reported NAV per share of S$4.03 as at 30 June 2021.

The above would suggest that news on the ARA stake disposal has been taken in positive light and has provided upside potential in the share price. We believe that this is supported by the fact that the Group's NAV per share will be boosted post-transaction. Thus, we will now review the potential impact of the ARA stake disposal on the Group's NAV per share.

As at 31 December 2020, the net asset value of ARA on the Group's books was S$410.9 million. We note from the Company's announcement on August 5 that the total gain by the Group on disposal is approximately S$729.5 million = [S$1,140.4 million expected to be realized upon completion of transaction – S$410.9 million net asset value of ARA as at 31 December 2020], assuming the transaction of the ARA stake was completed at the end of 2020.

Subsequently on August 13, the Company reported in its latest half-year financial statements that the carrying value of ARA on Straits Trading's book would be S$430 million as at 30 June 2021. Accordingly, the estimated total gain would then be S$710.4 million = [S$1,140.4 million expected to be realized upon completion of transaction – S$430 million net asset value of ARA as at 30 June 2021]. Including this gain to the Group's shareholders' equity of S$1,640.3 million as at 30 June 2021 would yield an adjusted shareholders' equity of S$2,350.7 million. Accordingly, the adjusted NAV per share would be about S$5.78, which represents about a S$1.75 increase from the reported NAV per share of S$4.03 as at 30 June 2021.

Considering the P/NAV multiple of 0.59x on August 4, the adjusted NAV per share would imply a share price of S$3.410 as follows:

- Implied share price = 0.59 x adjusted NAV per share of S$5.78 = S$3.410

(II) Peer comparison analysis for listed subsidiary

Now, we will perform a peer comparison analysis to review how the Group's listed subsidiary, MSC, is faring against industry peers in terms of valuation metrics. The selected publicly-listed peer companies as shown in **Exhibit 48** are one of the world's top tin producers alongside MSC.

Exhibit 48: Peer comparison analysis

Company	Closing price (MYR) as at 10 Sep 21	Market cap (MYR million)	EPS (MYR)	P/E (x)	DPS (cents)	Dividend yield (%)	NAV per share (3) (MYR)	P/NAV (x)
Malaysia Smelting Corp. Bhd	2.390	991.20	0.13	18.38	0.01	0.42%	1.09	2.19
Peer companies:								
PT Timah Tbk (1)	0.447	3,266.68	0.01	35.78	-	-	0.21	2.18
Yunnan Tin Co. Ltd (2)	15.069	23,628.06	0.57	26.67	-	-	5.44	2.77
Peers' average	-	-	-	**31.23**	-	**-**	-	**2.47**

Figures have been rounded
(1) Conversion from IDR to MYR based on exchange rate of MYR 1 = IDR 3,431.62
(2) Conversion from CNY to MYR based on exchange rate of MYR 1 = CNY 1.55747
(3) NAV per share as at 30 Jun 2021
Source: The Wall Street Journal, FPA Financial

Based on the results in **Exhibit 48** above, we note that MSC is currently trading at a P/NAV of 2.19x based on an NAV per share of MYR1.09, which is below the peers' average P/NAV of 2.47x. If MSC's P/NAV were to adjust to the peers' average P/NAV, the estimated target price would be as follows:

- Estimated target price for MSC = 2.47 x NAV per share of MYR1.09 = MYR2.692

The estimated target price for MSC of MYR2.692 represents an upside of 12.6% from MSC's current share price of MYR2.390.

(III) Valuation summary

In summary, we believe that the ARA stake disposal would have a strong positive impact on the Company's valuation. Assuming that the transaction would be completed, we estimate that the Group's NAV per share will increase to S$5.78 from the latest reported NAV per share of S$4.03.

Considering the Group's P/NAV multiple of 0.59x on August 4 before the announcement of the Group's disposal of its stake in ARA, we estimate an implied share price of S$3.410 based on the adjusted NAV per share of S$5.78. Meanwhile, our peer comparison analysis shows an upside of 12.6% for the share price of the Group's listed subsidiary, MSC.

We believe that there could be further upside potential in Straits Trading's share price given the strong earnings boost from the ARA stake disposal, and shareholders could benefit from a higher dividend yield given the potential for stronger dividend payout. Further, in the long term, we believe that the further upside is supported by strong earnings growth potential which is expected to be underpinned by potential catalysts including the Group's Straits City integrated development, an expanded portfolio for its Hospitality segment, and its South Korea logistics portfolio.

Considering the potential for Group to trade at a P/NAV of 0.60x, 0.70x and 0.80x, we would estimate a target price of S$3.468, S$4,046 and S$4,624 respectively, which are computed as follows:

- Estimated target price at 0.60x P/NAV = 0.60 x adjusted NAV per share of S$5.78 = S$3.468
- Estimated target price at 0.70x P/NAV = 0.70 x adjusted NAV per share of S$5.78 = S$4.046
- Estimated target price at 0.80x P/NAV = 0.80 x adjusted NAV per share of S$5.78 = S$4.624

On balance, we believe that it could be fair for the Group to trade at a P/NAV multiple of 0.80x in the longer term, given the Group's multitude of growth opportunities. Thus, our final estimated target price would be S$4.624, which would represent a 43.6% upside from the current share price of S$3.220.

SWOT AND COMPETITIVE ANALYSIS

In this section, we undertake a SWOT analysis in **Exhibit 49** to evaluate the various components of the analysis thus far.

Exhibit 49: SWOT analysis

SWOT analysis	
Strengths • Strong financial track record • Geographically diverse portfolio with a focus on income-generating assets	Weaknesses • Rising gearing ratio
Opportunities • Major development project in Butterworth to tap on new opportunities in a modernized Penang	Threats • Health concerns due to spread of new Covid-19 variants • Subdued recovery in international travel

(I) Strengths

As highlighted in our review of the Group's historical financial performance on page 19, the Group's profitability has broadly strengthened over the last few years. This has allowed the Group to provide good returns for its shareholders. Even in times of weaker financial performance, stable dividends have been paid over the last few years.

As noted on page 4 and 5, SRE's portfolio predominantly comprises of income-generating assets including logistics warehouses in Australia and South Korea and office properties in Australia and the UK, among others. These properties generate rental income on a recurring basis, which potentially provides greater stability for the Group's revenue performance. Meanwhile, the geographical diversity of the portfolio helps to reduce the impact of concentration risk.

(II) Weaknesses

As noted on page 20, the Group's gearing ratio stood at 53.5% as at 30 June 2021, higher compared to 42.4% as at 31 December 2020. Over the last few years, we note that the leverage has steadily risen, except in 2019, as shown in **Exhibit 50**. At the current level, we believe that the leverage is still manageable, but a consistent upward trend in the coming years could be a cause for concern

Exhibit 50: Group's gearing ratio over the last few years

	2016	2017	2018	2019	2020
Gearing ratio (%)	22.5%	25.9%	38.8%	33.5%	42.4%

Source: Company

(III) Opportunities

As discussed on page 21, we have identified the Group's Straits City master planned development project in Butterworth as a potential catalyst. The project is strategically positioned to tap on new opportunities in Penang as part of the Penang Draft Master Plan 2030. With the transformation of the landscape of Penang into a modern and smart state, this should attract greater tourism activity on both the domestic and international front, to the benefit of the project's retail and hotel components. Also, a modernized Penang could also incentivize more people to relocate to the state, thereby stimulating demand for residential apartments. Furthermore, with greater technological advancement given the transformation into a smart state, this could attract greater foreign investments such as the setting up of regional offices by multinational corporations.

(IV) Threats

The acceleration of vaccination progress globally has provided optimism over a strong global economic recovery in 2021. However, virus uncertainty remains as many parts of the world are currently dealing with the Delta variant, and there is also the risk of spread of new Covid-19 variants. The main concern is prolonged lockdown measures and restrictions, which could negatively impact the Group's financial performance. As seen in Malaysia, Covid-19 health concerns remain elevated which force the need for lockdown measures. In adherence to the enforcement of the full Movement Control Order 3.0, MSC had temporarily suspended its tin mining and smelting operations from 4 June 2021 until 14 June 2021. Moreover, performance of the Group's Hospitality segment could also remain weak if virus concerns were to delay the recovery in international travel.

INVESTMENT RECOMMENDATION

Based on the latest reported NAV per share of S$4.03, the Group is currently trading at a P/NAV multiple of 0.80x.

Considering the Company's recent announcement regarding the disposal of the Group's 19.0% stake in ARA, we estimate that the Group's NAV per share will increase post-transaction. Assuming that the transaction would be completed in 2022, we estimate that the Group's NAV per share will increase to S$5.78 from the latest reported NAV per share of S$4.03. Based on the Group's P/NAV multiple of 0.59x on August 4 before the impact of the ARA stake disposal was priced in the share price, the estimated implied share price would be S$3.410 based on the adjusted NAV per share of S$5.78. Meanwhile, our peer comparison analysis shows an upside of 12.6% for the share price of the Group's listed subsidiary MSC.

In our view, the share price could move higher given the expected strong earnings boost from the ARA stake disposal. Further, the Group's multitude of future growth opportunities should support further upside potential. In the longer term, we believe it could be fair for the Group to trade at a P/NAV multiple of 0.80x. Accordingly, we estimate a target price of S$4.624 which would represent a 43.6% upside from the current share price of S$3.220.

Considering the above, we will issue a buy recommendation on the Company and our target price is S$4.624. However, there are risks to the upside in our target price, which we will highlight in the next section.

RISKS TO THE UPSIDE IN TARGET PRICE

Below, we highlight the risk factors that could limit the upside in our target price.

(I) Risk of global virus resurgence

With the acceleration of vaccination progress globally, the growth outlook for the global economy has improved as many countries gradually reopen their economies In its latest July World Economic Outlook, the International Monetary Fund (IMF) maintained its 2021 global growth projection at 6.0%.

However, virus uncertainty remains as we see that many parts of world like Asia and the United States (US) are currently affected by the spread of the Delta variant There is a risk of a global economic slowdown if the global virus situation deteriorates This could potentially hurt the Group's hospitality segment performance given the correlation between hotel demand and economic growth. Furthermore, there could also be ramifications for the Property segment, such as the delay in construction progress at the Straits City integrated development in Penang.

(II) Risk of prolonged lockdown measures in Malaysia

As it stands, the Covid-19 situation in Malaysia remains unstable given rising daily infection cases, which has forced the need for lockdown measures. In June 2021, MSC had temporarily suspended its tin mining and smelting operations in adherence to the enforcement of the full Movement Control Order 3.0. Given that the Resources segment is a key driver of the Group revenue, further disruptions to MSC's tin mining and smelting activities owing to prolonged lockdown measures could negatively impact the Group's financial performance.

(III) Risk of unsuccessful takeover of ARA by ESR

As noted on page 22, the recent announcement of ESR's takeover of ARA has provide upside potential for the Company's share price, as reflected by the share price surge when the announcement was made on 5 August 2021. The Company had disclosed in its announcement that the expected completion of the transaction is expected to take place in Q4 2021 or Q1 2022. However, it also cautioned that there is no certainty or assurance that the transaction will be completed or that no changes will be made to the terms thereof, suggesting that there is still a risk that the deal may fall through.

(IV) Currency fluctuation 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. These foreign exchange risk exposures are mainly in United States Dollar (USD), Australian Dollar (AUD) and Japanese Yen (JPY). A significant strengthening of the USD, AUD or JPY against the SGD could have a negative impact on the Group's earnings arising from currency exchange losses.

SUSTAINABILITY INFORMATION

Straits Trading believes sustainability is about looking ahead and managing our responsibilities towards its shareholders and other stakeholders. This means managing the various business risks and opportunities that would come its way, including those relating to Environmental, Social and Governance (ESG) trends.

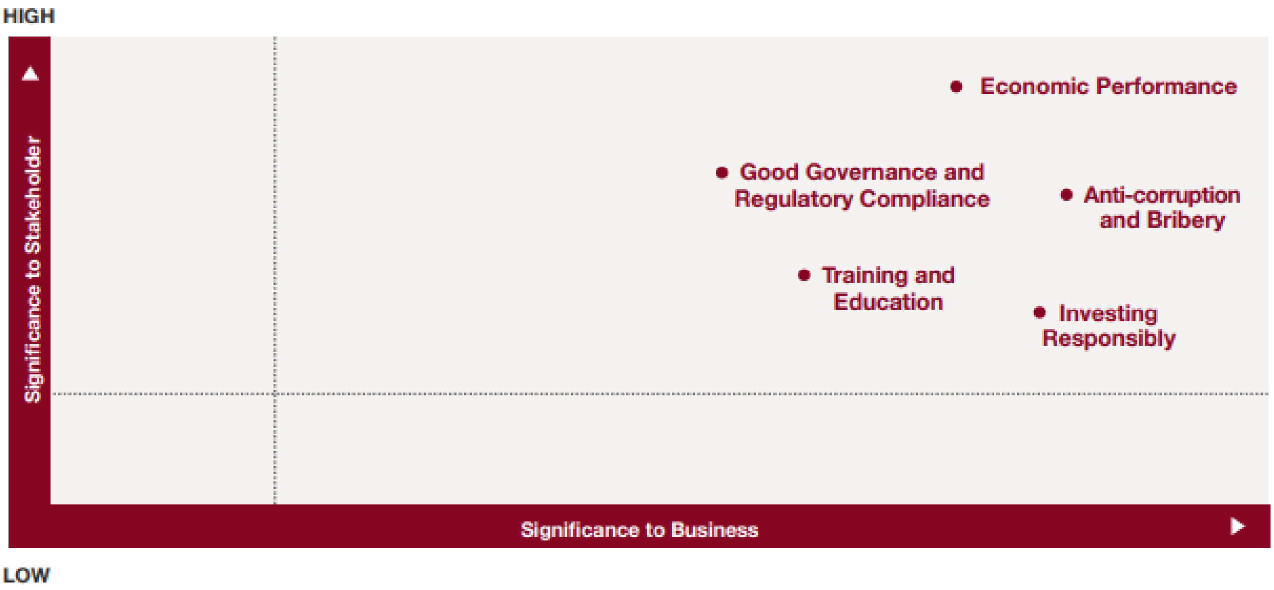
Materiality assessment

The business activities of Straits Trading and SRE focus on investments in real estate and real estate funds. Straits Trading places priority on the interests and fair treatment of its investors and shareholders and it has taken these activities and values into consideration when conducting its materiality assessment. The process begins by identifying the various direct and indirect ESG impacts of its activities. The Company also carefully considers where it has control and influence over the various ESG impact of these activities in order to identify opportunities to most effectively manage them.

The Company believes it has the most control in three areas: (1) Investing in a responsible manner; (2) Practising good compliance; and (3) Engaging and developing its employees. In addition, it recognises that its position as a provider of capital gives us a certain influence with our business partners. As an investor in different funds, Straits Trading does not have direct control over how fund managers invest its capital or how asset managers manage its properties. Nonetheless, the Company aims to select managers that operate in a responsible manner and engage with them regularly to create and increase awareness.

These above conclusions formed a basis for the Company's ESG materiality assessment. After assessing ESG related business risks and opportunities and ESG related issues in the financial services sector, the Company identified five ESG factors it believes to be most material. The five most material factors are illustrated in the materiality matrix in **Exhibit 51**.

Exhibit 51: Materiality matrix



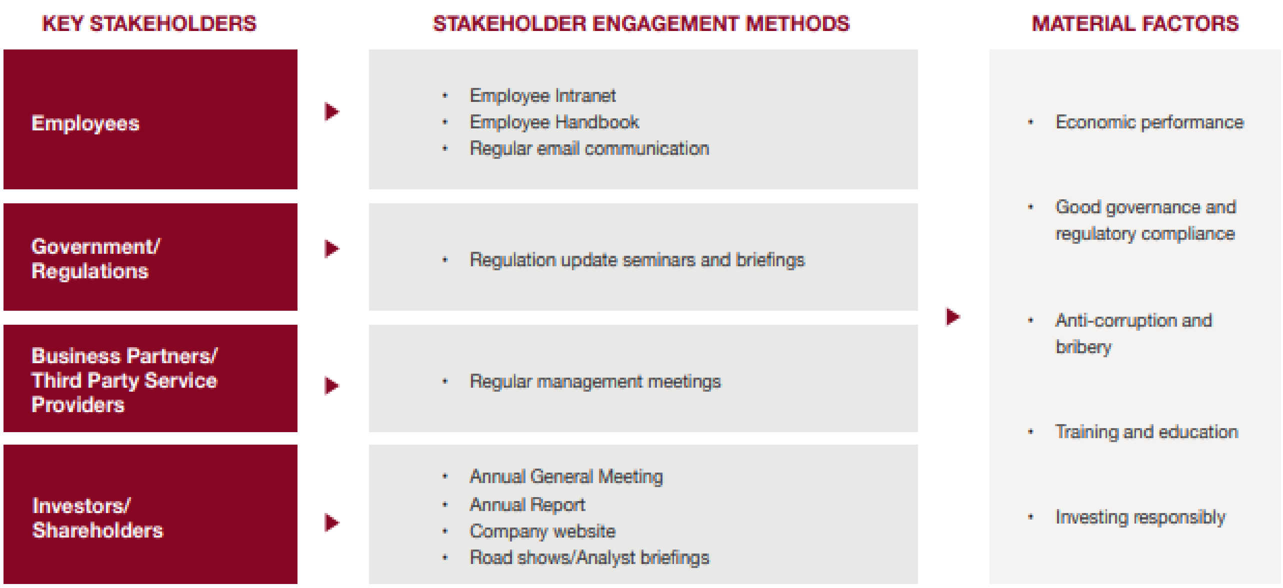
Source: Company

Stakeholder engagement

Straits Trading believes that its stakeholders, both internal and external, influence numerous aspects of the business and it is vital for their views to be incorporated when determining its material ESG factors.

The Company engages with its external stakeholders on a regular basis, such as through conducting road shows to better enhance communication with shareholders and investors. It has used the insights gained from these interactions to determine what ESG factors would be most material to them. An overview of the Company's stakeholder engagement framework is shown in **Exhibit 52**.

Exhibit 52: Stakeholder engagement



Source: Company

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