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News analysis

Singapore stock market: More uncertainties ahead

Wong Wei Han
(mailto:whwong@sph.com.sg)

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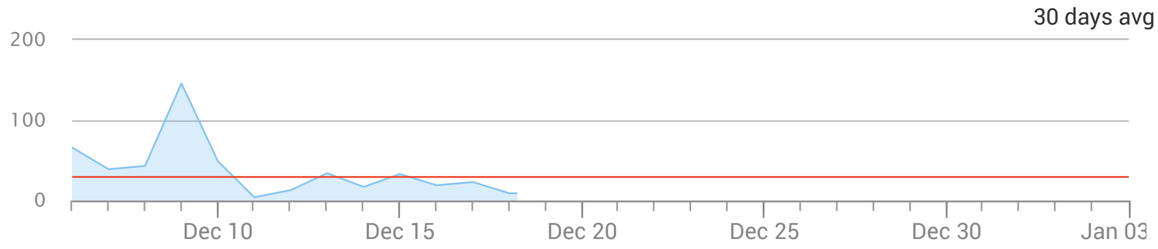
It has been a turbulent year for the stock market, with investors jolted by one shock after another.

Those who survived the ordeal will find things little changed from December last year and more uncertainties ahead, even though opportunities still abound.

POOR START TO A VOLATILE YEAR



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HOT COMPANIES (messages) : CapitaMall Trust **-8%** Jardine Cycle & Carriage **-8%** SIA Engir

In many ways, January's woes provided a snapshot of the bumpy months ahead.

Global markets had barely woken up from the New Year break when fears about a hard landing in China and plunging oil prices intensified, sending key indexes on Wall Street and in Asia into free fall.

By mid-January, the Dow Jones Industrial Average had fallen nearly 10 per cent. Shanghai was down over 20 per cent when the month ended.

At home, the benchmark Straits Times Index (STI) fell about 12 per cent, to its lowest since late 2011.

The local market had regained its footing by mid-March, but the second half of the year would remain volatile, dominated by uncertainties over the Brexit vote in June and the United States presidential election last month.

"It's been a year of many shapes and sizes, depending on your perspective. Those who entered the market in the first quarter would enjoy a healthy return. But looking at the full year, we're pretty much where we were last December," said KGI Securities Singapore trading strategist Nicholas Teo.

At the Singapore Exchange, the listings outlook may improve as the bourse takes a more flexible approach to trading rules. It is also considering a dual-class share listing framework. To showcase locally listed firms, it has organised corporate day events in key financial centres abroad. ST PHOTO: CHEW SENG KIM

The STI closed at 2,882.04 points yesterday, almost level with the 2,882.73 recorded at the end of last year, despite a sizeable lift from the global rally sparked by Mr Donald Trump's victory on Nov 8.

On the trading floor, the bearish view voiced since last year stayed largely unchanged, said Society of Remisiers president Jimmy Ho. "The second half was perhaps a bit more vibrant, but trading volume remained low because of the volatile economic and political situation. The livelihood of remisiers is going from bad to worse."

LOW VOLUME AND MORE DELISTINGS

Stagnant trading flow has plagued the local market for a while, and is now hitting other regional bourses.

In the first 11 months of the year, the Singapore Exchange (SGX) saw average daily securities turnover of $1.09 billion, down from $1.16 billion in the same period last year and $1.46 billion in 2013.

POSSIBLE HEADWINDS

The threat of anti-globalisation, the rise of populism affecting the results of several upcoming elections in Europe and possible liquidity outflows are negative headwinds to watch for.

DBS VICKERS, on risks to factor in

In Hong Kong, average daily securities turnover dropped 39 per cent year on year in the first 11 months, but still came in at HK$67.2 billion (S$12.6 billion).

"The low trading volume in Singapore is due to structural issues with few big-ticket initial public offerings (IPOs) entering the bourse, while privatisations and takeovers gathered momentum in 2016," said DBS Singapore equities research head Janice Chua.

"In addition, the lack of growth catalysts for the local market, which saw two years of earnings decline amid challenging operating conditions for Singapore Inc, led to liquidity outflow and insufficient interest in local equities."

Overall, SGX still fared better, attracting new listings this year. There were 16 IPOs, which raised around $2.3 billion in all, a much livelier showing than the $512.4 million from 13 listings last year.

Bumper deals in the real estate investment trust (Reit) sector, such as those involving Manulife US Reit and Frasers Logistics and Industrial Trust, were the highlights.

But investors will also remember 2016 as a year of delistings. From Neptune Orient Lines and Osim to Eu Yan Sang and Super Group, household names left the stock market at a seemingly alarming rate.

Private equity money and foreign capital have poured into Asia looking for acquisition targets, while alternative sources of financing such as crowdfunding are proving attractive to growth companies in need of capital.

These factors will remain a structural challenge for SGX, said Azure Capital chief executive Terence Wong.

"But I do think the listings outlook will improve in 2017 - partly because the cheap valuations that left many companies being traded at a deep discount could be normalising soon," he noted. "It also helps that SGX is becoming more proactive in engaging companies for listings and profiling."

CHANGING APPROACH

One of the takeaways from this year should be that SGX has embraced the market challenges, making earnest efforts to adapt.

Since August, for instance, corporate day events have been organised here and in cities such as Hong Kong, Tokyo and London to showcase over 50 Singapore-listed firms to institutional investors.

Meanwhile, a dual-class share listing framework is being considered that could make SGX a more attractive destination for tech firms that prefer to have more business control.

There are also strategies to grow the overall investment market outside the relatively slow equities segment. The £87 million (S$156 million) acquisition of the Baltic Exchange by SGX is expected to help boost the derivatives market here.

But just as importantly, the bourse is showing a willingness to be flexible. This was reflected in its proposed changes to the much-maligned minimum trading price (MTP) framework in August.

With the changes, a mainboard-listed firm that maintains a six-month average daily market capitalisation of over $40 million will not be placed on the SGX watch list even if it misses the 20-cent minimum trading price requirement. This means fewer firms will be affected by the rules.

The MTP framework had drawn fierce criticism from investors and traders, who saw the rules as damaging to stock values because many companies had been forced to conduct share consolidations only to see prices plunge again.

These changes are welcome, Mr Ho said, adding: "You will notice that the society is much less confrontational this year because SGX has shown that it's willing to listen to feedback. My wish is that it will stay the course."

CAUTION AMID OPPORTUNITIES

As the volatile and often unpredictable year draws to a close, investors are advised to tread carefully in 2017.

"Market volatility will go up as the world watches Trump's policies unfold. The threat of anti-globalisation, the rise of populism affecting the results of several upcoming elections in Europe and possible liquidity outflows are negative headwinds to watch for," DBS Vickers said in its strategy report for next year.

Mr Teo also advised investors to keep a close watch on how the US Federal Reserve manages rate hikes next year - "if the path is accelerated, then it could spell trouble for corporate sectors worldwide because of the substantial debt level".

But that should not mean there are no opportunities to take advantage of.

"We are optimistic the worst of the earnings-cut cycle here has passed. For 2017, we forecast overall earnings growth of 12.1 per cent for stocks under our coverage - a reversal from the 4.7 per cent earnings contraction this year," said DBS Vickers, forecasting the STI would hit 3,150 points by mid-year.

Its picks for next year include Genting Singapore and OCBC for the potential earnings turnaround, ComfortDelGro for the sustainable dividend yield, and Venture Corp and ST Engineering for their exposure to a strong US dollar.