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SGX on track to woo investors

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The Singapore Exchange is proposing several changes to its stock market rules in a bid to give the market more spring in its step. From ensuring that retail investors get a slice of the pie in future mainboard listings, to increasing the minimum bid size to make it more profitable to trade and restoring the remisiers' lunch break, these proposals seek to bring traders and retail investors back to the market.

By various measures, retail participants' interest in the market has been weak.

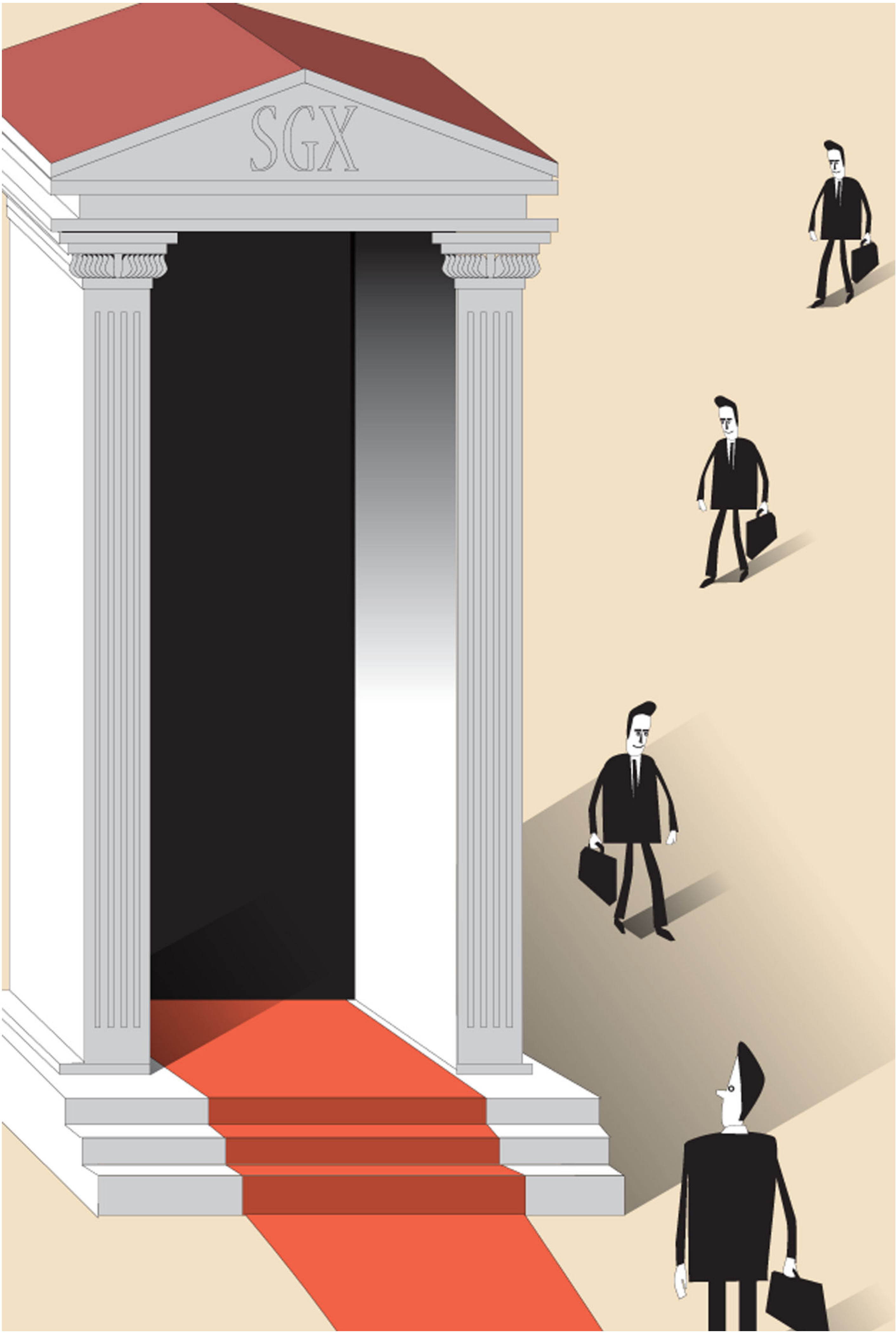
The Singapore Exchange's (SGX) total securities market turnover value has been on a downtrend. It went from $401.95 billion in 2010 to $354.82 billion in 2013, and $271.91 billion last year - a 32 per cent slide over the years.

The securities daily average value (SDAV) was $1.08 billion last year, lower than 2010's $1.60 billion and 2013's $1.41 billion.

In comparison, rival Hong Kong Stock Exchange reported SDAV of HK$66.92 billion (S$12.1 billion) last year - around 12 times that of Singapore.

Even regionally, the Stock Exchange of Thailand sees higher levels of trades on a daily basis, with SDAV of 50.24 billion baht (S$2 billion) chalked up last year.

As a proportion of the total trades, retail investors here make up only around a quarter of the SDAV. In Thailand, it is consistently above 50 per cent.


SGX

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The Hong Kong Exchanges and Clearing measures retail participation by the number of investors, and a survey in 2015 showed that 2.25 million individuals - a whopping 36.2 per cent of the total adult population - were stock investors, a record high.

Lower turnover discourages retail investors, who prefer trading in more liquid markets that allow them to enter and exit quickly.

"When retail investors see things are slow in the SGX, they stay away. That creates a vicious circle where slowdown begets more slowdown, turning away more investors and new listings," said fund management firm Azure Capital's chief executive Terence Wong.

JUGGLING THE RULES

The reasons behind the slowdown are plenty, with some resulting from the SGX's own decisions and strategies.

The decision in 2011 to do away with a lunch break was seen as counterproductive as, according to remisiers, it took away the time to engage with clients for business and trading ideas.

Six years on, the SGX last month proposed restoring the break - albeit for an hour instead of the old 11/2 hours - aligning itself with regional peers like exchanges in Hong Kong, Kuala Lumpur and Shanghai.

It was also in 2011 when the SGX decided to narrow the bid size of stock trading. The move to shrink the bid-ask spread - the amount by which the ask price exceeds the bid price - was to make trading more cost-effective and attractive to retail investors. But, ironically, it may have made trading of some stocks less appealing since it became harder to make any meaningful profit punting a stock.

The SGX is similarly seeking to re-widen the minimum bid-size from half a cent to one cent, but only for stocks between $1 and $1.99.

Underlying all this was a growing focus on the institutional market, a multi-year development that some people speculate might have been at the expense of the retail segment.

During the 2009 to 2015 period, when the SGX was helmed by Mr Magnus Bocker, there was a clear ambition to develop the exchange into a multi-asset and international trading hub. The consequent focus on institutional players had to be part of the plan.

There was, for example, the joint venture Chi-East in 2010, the region's first exchange-backed dark pool allowing large investors to trade on a non-displayed platform, or the expensive trading engine Reach launched in part to support high-frequency, computer-driven trading which again catered mostly to institutional players.

While the full impact of these initiatives is still unfolding, the SGX did succeed in building up its derivatives business. Between 2010 and 2015, derivatives income grew from just 21 per cent of the SGX's total revenue to 38 per cent, while revenue from securities trading fell from 46 per cent of the total to 27 per cent.

LISTING WOES

Another issue that has enforced the perception of a lacklustre market is the lack of new listings, and a growing number of delistings.

There were 16 initial public offerings (IPOs) raising over $1.8 billion in Singapore last year, a major improvement from 2015's $339 million from 13 IPOs. But this was merely a fraction of Hong Kong's HK$194.8 billion (S$35 billion). Meanwhile, close to $16 billion of market cap was erased last year in Singapore due to delistings, with notable names such as the founders of Osim and Eu Yan Sang buying their companies back while others such as Super Group were acquired by global players.

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PwC capital market services leader Tham Tuck Seng said the listing woes in Singapore are due to the perception of a stagnant market.

"The thinking is that a market that has no liquidity and volume offers no good valuation. It's the same thinking behind some of the delistings, where companies perhaps judge that it's not worth the effort to be listed here," he said.

"Keep in mind that the SGX's listing requirements are also more stringent. For instance, mainboard listing here requires a company to have annual (pre-tax) profit of $30 million. In Hong Kong, that requirement is only HK$20 million."

With the often intense focus on how the SGX could have done better, it's easy to overlook that some reasons for the decline could be structural.

National University of Singapore Business School associate professor Lawrence Loh cited the economic backdrop as another factor. He said: "Interest in our listed stocks is in many ways influenced by the growth directions of the companies. The competitive shifts of stock trade to other markets often mirror the economic potential of the jurisdictions in both the long and short runs."