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Property sector leads list of buyouts from Singapore Exchange

Some argue privatisations signal low valuations; tech, industrials, oil and gas tipped for further M&A

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DBS said that Sheng Siong could possibly be a takeover target by online players eventually. ST FILE PHOTO

Going, going...

Singapore

THE year 2017 is shaping to be the year of the property buyout.

As firms continue to plot their exits from the Singapore Exchange (SGX), analysts say this indicates that valuations are still low - though the situation is not as bad as a year ago.

They cite tech, property, industrials, consumer and oil and gas names as potential candidates for further mergers and acquisitions (M&A) activity.

Figures compiled by The Business Times with assistance from Thomson Reuters show that over US$20 billion worth of offers including net debt have been made year-to-date. These values do not include the value of shares which offerors already own.

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Four giant deals - Global Logistic Properties (GLP), United Engineers, Croesus Retail Trust and CWT - account for 97.4 per cent of that value. The remainder are a mix of healthcare, food, manufacturing, and other services firms.

share offers on sgx

Meanwhile, SGX data show there have been five mainboard listings and 10 Catalist listings in 2017, with deal values dominated by Singtel's S$3.1-billion NetLink NBN Trust spinoff, which raised S$2.3 billion.

"As long as a reasonable yield can be achieved, and as long as banks are willing to finance the deals, there will be property buyers," said NRA Capital head of research Liu Jinshu.

Smaller firms will get privatised if the owners feel their businesses are relatively mature that there is little need to tap capital markets, he said. Companies will also want to save on listing and compliance costs.

"The ongoing privatisations show that valuations are low," he said. "If valuations are frothy, there will be more listings than privatisations."

OCBC Investment Research head Carmen Lee said that as most recent offers were usually at a premium to the last traded price, there is a positive signal that valuations are not expensive.

"Based on current market valuations of about 15 times earnings and 1.25 times book, Singapore's valuations are not expensive compared to the region, and this could continue to support the privatisation theme," she said.

Rajiv Vijendran, Maybank Kim Eng's regional head of investment banking and advisory, said real estate has traditionally been one of the largest contributors to Singapore M&A volumes.

He is seeing strong M&A dialogue across sectors like real estate, industrials, consumer and tech.

"There is a large amount of private capital in Singapore and we expect the financial sponsors to continue to be active with a focus on SGX-listed companies that have strong fundamentals but trade at a discount to their regional peers," he said.

SGX-listed property firms have been in the spotlight amid a recovery in sentiment that led to developers placing bullish bids for land and a decent showing for new condo launches.

Companies are contemplating restructuring moves. One example is UOL's move in June to gain an option to acquire a stake in UIC from holding company Haw Par, potentially raising its stake in UIC to 48.94 per cent.

Kenneth Tang, senior portfolio manager at Nikko Asset Management's Asian equity team, said restructuring and M&A activity usually happens at market lows.

Other than GLP, major Singapore corporates like airline Singapore Airlines and utilities, marine and urban development group Sembcorp Industries have embarked on strategic reviews, he noted. Others like palm oil processor Wilmar International are looking to list their subsidiaries.

Mr Tang said restructuring often accelerates in times of economic stress and market troughs. Together with government spending packages, they correlate with stock market bottoms.

Joel Ng, team head of retail research at KGI Securities (Singapore), thinks there will be a consolidation of shipyard capacity given the oversupply situation. "This would involve Sembcorp Marine and Keppel Offshore & Marine," he said.

Property developers could also see renewed interest following deals in GLP and United Engineers, Mr Ng added.

However, a banker told BT that property valuations are now quite rich and owners might prefer to raise equity instead.

"I'd be surprised to see another property privatisation, to be honest. Founders only privatise when markets undervalue them," he said.

In the small cap space, better valuations are attracting more firms to list. Catalist listings including reverse takeovers raised S$198 million in the first six months of the year, compared to S$60 million a year ago, SGX said.

Azure Capital chief executive Terence Wong, who specialises in small cap stocks, said that anecdotally, fewer firms are contemplating delisting.

"Last year, more than half of the companies I spoke to thought about it," he said. "Now, they're just talking about raising money as the market is back with greater liquidity, and their share prices are a lot higher."

One potential delisting candidate Mr Wong has built up a position in over the last few months is Tianjin ZhongXin Pharmaceutical Group. The medicine producer, which is also listed in China, is valued far lower in Singapore, he said.

As for tech, observers say the sector is active due to a positive outlook for revenue and profit growth, driven by the smartphone boom, cars, and the Internet of Things. Takeover plays cited by DBS Group Research in recent months include Sunningdale, UMS, Fu Yu and Venture.

Non-tech names thrown up by DBS, meanwhile, have included property owner Bukit Sembawang, construction firm OKP Holdings, engineering specialist PEC, finance company Hong Leong Finance, and even supermarket operator Sheng Siong.

"We believe that Sheng Siong, with its decent store network and logistics chain, could possibly be a takeover target by online players eventually," DBS said on Friday.

Local egg producer Chew's Group became one of the latest firms to announce investor interest.

The controlling shareholder of the firm "has been approached and is currently in discussions with third parties to explore a possible transaction involving the shares of the company, which may or may not lead to an offer", the firm said last Tuesday.

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