Fund Focus: Azure Capital bullish on the Singapore equities story

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Terence Wong, the chief executive and founder of Singapore-based asset management company Azure Capital, is bullish on the prospects and potential of Singapore's equities market.

On the fund's website, Wong, a former equities analyst, writes: "I find Singapore equities sexy. While my flagship fund has a regional mandate, I will commit a princely percentage to Singapore, disproportionate to all the global and regional indices. Most people will think that I am engaging in a career-ending move, given that the Singapore market has been the most lacklustre in the region over the past few years."

"Having analysed this market for almost 20 years and seen over 400 companies, I think that the Singapore equity story is far from over. Valuations are attractive (many are trading at basement P/Es and sharp discounts to book value), dividends are palatable (market average of almost 4%), and stocks are largely under-owned. While there have been some shocking implosions in the recent past, corporate governance remains one of the best in the region. There are indeed loads of gems out there for the picking and the time is ripe for a revival!"

"I am one of the few people out there who like the Singapore story. But I am confident that in a matter of time, investors will jump onto the bandwagon," he adds.

Their flagship fund is the Azure All-Star Fund, a S$100 million special situations fund that invests mainly in small and mid-cap enterprises.

Commenting on the fundraising scene, Wong opines: "I think generally the fund-raising scene has been fairly difficult, as I think a lot of people generally don't want to invest. For myself, I think there's a little bit of luck. I've been an analyst and I know many many companies. Over the course of 16- 17 years, I've met up with over 400 companies. About 200 of them I know very well, and 80 of them are like my buddies."

“Many of these company founders trust me. Despite my lack of experience, they believe in the way I look at stocks and equities markets. The largest single amount committed to a fund by one of my limited partners is S$25 million.”

According to Wong, the composition of the small cap equities market in Singapore has been largely under-researched, with the last period where Singapore’s small cap space was in the 2012/2013 period. Wong explains, “It was actually an okay year but it was largely driven by few counters. Then the penny crash came in October in 2013.”

Commenting on this investment philosophy, Wong explains: “If you ask me about philosophy, it’s about diving deep down into every company do research and gain an understanding of them. It’s about trying to analyse them on a case-to-case and company-to-company perspective, and I believe that many of them do have a lot of value. It’s just that unfortunately the markets have overlooked them because they are small-cap companies listed in Singapore.”

Noting that the SGX had seen a wave of delistings as a number of firms chose to go private and relist elsewhere, Wong argues: “The Singapore market is fairly robust. The fundamentals are here. We have to actually protect these companies because they’re falling off like flies. But many want to go to Hong Kong because they feel they’re not getting a fair valuation from the investment community.”

“Where I think I can help is that if you’re a good quality company, then I want to invest in you and for people to know about you post-investment. And if this cycle starts, you have an ecosystem where analysts, fund managers, media, investor relations professionals and the founders of listed companies can come together to help boost the market.”

Wong sees the market as lacking appreciation for well-performing small-cap enterprises.

Being one of the few funds operating in the small and mid-cap equities, Wong sees funds moving away from the segment. and attributes the shift away from small cap equities in Singapore is due to a lack of liquidity.

He explains: “One very important thing is liquidity. We need to be able to get in and be able to get out and a lot of funds can’t, as they don’t have the capability to actually improve the liquidity to a point that they can get out. Getting in can take 3-5 months and you can surely collect a sizeable stake in the company. But how do you get out? It’s tough. Markets are going down this way, so Singapore became a less than sexy market – some of the funds had perhaps one to three stocks in Singapore, with the rest distributed around the region.”

“A lot of the fund managers start off managing funds. How do they get ideas? They listen to analysts who come in with ideas and maybe introduce them to the company. And if they meet them once or twice, they’re happy. For me, I am embedded with these companies, I know the companies and their bosses very well. I go to their family events and house parties and visit them during Chinese New Year.”

He adds, “I’ve known them for a period of time and I’m comfortable before I put money in the company. So I don’t sit on my hands. These companies must know I am actively involved. I am not an activist investor that goes there probing their accounts telling them to take some action to cut costs. I trust them with operations, but they need to trust that I can help bring them to the next level; this improves liquidity and allows me to eventually exit.”

While the Singapore Exchange (SGX) has made a strong rebound this year, the liquidity of its securities market still lags compared to other stock exchanges in the region like the Australian Securities Exchange (ASX), whose liquidity is supported by capital from Australian pension funds.

Commenting on such a development in a Singapore context, Wong says, “I think it’s a possibility.

Of course, I think the government is afraid that the money might go down the drain, but I see them possibly moving the narrative. If GIC [which manages Singapore's CPF] is open to investing in Singapore companies then I think it'll be great! This is what the EPF in Malaysia does. The EPF is invested in a lot of the Malaysian companies, which increases the level of stability and liquidity within companies. So government support, I believe, is required."

"The companies here, many of them are very undervalued but otherwise fundamentally sound, so you're not throwing your money into the deep blue sea. I mean, them supporting startups for instance – I really don't have anything against startups – but many of them aren't making money and probably won't for the next 3-5 years. But if you are supporting a Singapore corporate, some of them have reputable brands and have been listed for 20 years or longer. And have been around for the last 50 years generating decent dividends and making money. So why not?," he added.

Currently, Singapore's Central Provident Fund (CPF) is reported to have assets under management (AUM) of $211.4 billion (S$287.9 billion), according to research by Pensions & Investments (PI), and global risk-management and advisory company, Willis Towers Watson (WTW).

Wong highlights that such a move would aid in supporting local capital markets as the city-state transitions into the next phase of economic growth, with the implication that Singapore-listed firms able to secure fair valuations will remain listed.

Wong argues that if the Singapore government were to support the liquidity of the equities market through injecting capital from the CPF into local equities, this would boost liquidity in the market and reduce the desire to delist companies.

Wong says, "In the long run, this delisting is going to be detrimental to SGX, because the SGX is reaching out to regional companies to come here to list. When you look at this wave of delistings' and even your own Singaporean companies are getting out, why should I be listing here? So if the government does something to help protect those listed entities, it's a step in the very right direction."