

# THE BUSINESS TIMES



S\$1.20



A SINGAPORE PRESS HOLDINGS PUBLICATION

www.businesstimes.com.sg



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CO REGN NO-198402868E

MCI (P) 052/08/2016

Monday, September 5, 2016



THE BUSINESS TIMES  
40TH ANNIVERSARY

## GOING CASHLESS

How ready is your organisation for an electronic payments society?

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Sweet treats to indulge your inner child  
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## TOPLINE

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## MARKETS

	Weekly	Change
STI	2,803.92	-53.73
KL Comp	1,671.79	-11.30
Nikkei 225	16,925.68	+564.97
Hang Seng	23,266.70	+357.16
Shenzhen B	1,167.75	+6.25
Dow	18,491.96	+96.56

## DAILY DIGEST

Countries in the G-20 need to take action and not just talk, says Chinese President Xi Jinping. **TOP STORIES / 2**

Chongqing is an "ideal place" for Singapore's third government-to-government project with China, says Prime Minister Lee Hsien Loong. **TOP STORIES / 2**

Diamond Energy Merchants, a proponent of smart energy solutions, aims to change the way electricity is consumed in Singapore. **COMPANIES & MARKETS / 10**

Shadow lending by listed Chinese banks surged in the first half, underlining the challenges faced by China's banking regulator as it tries to rein in the use of opaque lending structures seen as a threat to financial stability. **BANKING & FINANCE / 13**

A widening gap between Asia's oil production and demand is creating a growing capital drain for the region, and leaving countries vulnerable to global supply disruptions and a sudden surge in oil prices.

# 'Recession-proof' stocks soar but doubts persist

Analysts differ over which stocks these are and whether some of them are overvalued

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## Singapore

WHAT makes a stock "recession proof"? It depends on who you ask. Some analysts might say consumer staples, telcos and transport companies qualify because food, communication and daily travel will always be needed no matter what the state of the economy is, others may say Reits because of their dividend yields.

Yet other analysts may point to gold-linked companies or healthcare firms, while there also are those who say no sector can be considered completely recession-proof.

Notwithstanding the differing views and despite the weak economy, the market has been rewarding some "recession proof" counters this year - the question being for how much longer.

Among food stocks, supermarket operator Sheng Siong stands out - for the week ended Aug 26, it recorded the biggest jump in volume among actively traded stocks with seven mil-

lion shares traded on average a day, compared to 2.4 million on average in the last three months.

The counter hit an all-time high of S\$1.155 on Aug 24, before closing at S\$1.045 last Friday, continuing a rally that gained strength once the firm released second-quarter results on July 26 that included double-digit profit growth. Bloomberg pegged its gross dividend yield at about 3.5 per cent and for the year to date, it has risen a handsome 24.4 per cent.

Similarly, consumer staples giant Dairy Farm International, which operates 7-Eleven convenience stores, Guardian and Mannings health stores, and supermarkets like Cold Storage and Giant, has rallied this month to its highest levels in a year. With a dividend yield of 2.7 per cent, its gain is 22 per cent so far in 2016.

Analysts view "recession proof" stocks as defensive companies like consumer staples firms and telcos whose earnings do not fluctuate with business cycles. However, as valuations climb, gains may be curbed. "At one time (instant beverage sachet

maker) Super Group was like S\$3, S\$4 (pre-split), over 20 times (price-to-earnings) and people were trumpeting that it's a defensive stock, a consumer staple," said Terence Wong, CEO of Azure Capital.

"Then when things happen, because it has risen so much over the years, it has room to fall," he said.

Super Group then faced higher materials costs along with regional political, economic and currency volatility. The stock has dropped more than half from its 2013 high.

Sheng Siong, in the meantime, may be a recession-proof stock as people buy more house brands when times are bad, Mr Wong said. But its valuation might have run too far ahead, he said.

"I don't know if something is happening, but no matter how defensive (Sheng Siong) is, does it deserve a valuation far richer than the market? I'd say not."

After Sheng Siong reported its second-quarter earnings, Maybank Kim Eng (MKE) issued a report which said even at 20 times earnings, Sheng



Dairy Farm International, which operates supermarkets like Cold Storage (above), has rallied this month to its highest levels in a year. Its gain is 22 per cent so far in 2016. ST FILE PHOTO

Siong was not expensive given its yield of more than 4 per cent and superior returns, the broker said.

Its target price then was S\$1.13, equivalent to 22 times 2017 expected earnings. "As the economy weakens, we expect it to benefit from consumers trading down. Benign competition also means it should be able to pass on food inflation ... with no impact on margins," it said.

The "sell" side like MKE may take a

positive view, but the "buy" sees things slightly differently. Lai Yeu Huan, senior portfolio manager at fund managers Nikko AM, said as some stocks push into the 20s in terms of earnings ratios, he has been selling even as he still maintains an "overweight" position relative to benchmarks. Stocks he sold include an airport services firm and supermarkets, he said.

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