

# Investing in Singapore Blue Chips

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## What does it mean to invest in equities?

According to the Securities Investors Association Singapore (SIAS) Investment Guide Book, when an investor buys a share, they become a co-owner of a company, and if the company does well, share prices will generally increase. As part of the co-ownership, common stock holders will have voting rights and a share in the company's profits through dividends and capital appreciation. Investors who wish to evaluate a stock might use technical analysis which involves the use of charts, or fundamental analysis which involves analyzing company financials, management and prospects.

## Singapore Blue Chip Shares

### *What is Blue Chip*

The Straits Times Index (STI) is made up of 30 Singapore blue chip companies. Blue Chip is defined by the "Barron's Dictionary of Finance and Investment Terms" as common stock of a nationally known company, with a long record of profit growth and dividend payment. Such companies typically have a reputation for quality management, products, and services.

### *Long history of STI*

Included in the 30 STI stocks are companies which have been providing goods and services to Singapore for more than a century. Singapore Airlines flew its first plane more than 65 years ago on 1 May 1947. Looking another 100 years back, the first publication of the Straits Times was circulated on 15 July 1845 by the Singapore Press Holdings.

### *Stability of Singapore*

Today, Singapore is ranked number one in Asia for corporate governance, and is the only country in Asia with the highest rating from all three major credit rating agencies. This provides a stable environment for the STI companies to conduct business in, reducing the risk of disruptions to their businesses.

### *Profitability of STI companies*

All 30 STI Companies were profitable in the latest financial year, with profits ranging from S\$248.9 million for ComfortDelgro to close to S\$4 billion for Singtel.

### *Dividends*

12 of the 30 shares pay out more than half of their net income as dividends, while the remaining 18 shares pay out more than 14%. More details on the profits and dividends of the 30 companies can be found on the SGX My Gateway website.

## What should investors look out for when investing in equities?

For a first time investor, it is useful to consider the investment objective before deciding on what information is needed analyse the companies.

## Investing for income

For investors looking to generate income through investing, they may choose to focus on the dividends which are paid out by the company. This is typically measured by the dividends paid per share, or dividend yield. As a benchmark, the STI constituents had an average yearly dividend yield of 3.21% from 2010 to 2012.

Current examples of dividend shares in Singapore which investors can consider are telecommunication shares and Real Estate Investment Trusts. As detailed in the table below the three shares of the STI with the highest dividends as of 19 June were Hutchison Port Holdings, Singapore Press Holdings and Starhub.

STI Constituent	SGX Code	Market Cap (\$mil)	ICB Sector Name	12M Price % change (%)	Dvd 12M Yld - Gross (%)
HUTCHISON PORT-U	NS8U	8,408.62	Industrial Transportation	7.00	8.58
SINGAP PRESS HLG	T39	6,830.38	Media	13.46	5.54
STARHUB LTD	CC3	6,928.80	Mobile Telecommunications	22.69	4.83
SIA ENGINEERING	S59	5,494.24	Industrial Transportation	26.84	4.47
KEPPEL CORP LTD	BN4	19,011.51	Oil Equipment, Services & Distribution	5.84	4.22
SINGAP TECH ENG	S63	12,445.32	Aerospace & Defense	35.45	4.21
SINGAP TELECOMM	Z74	58,034.21	Mobile Telecommunications	15.67	4.19
SINGAPORE EXCH	S68	7,633.81	Financial Services	15.19	3.67
CAPITAMALL TRUST	C38U	6,898.19	Real Estate Investment Trusts	12.47	3.58
COMFORTDELGRO CO	C52	3,740.48	Travel & Leisure	22.30	3.55

Top 10 dividend yielding shares for the past 12 months

Source: Bloomberg (Data as of 19 June 2013)

## Investing for capital appreciation

Some investors however, prefer to look at companies which have exhibited higher than average growth over the years. If the investor is interested in such shares, they will typically focus on how the company has grown in terms of net income. Strong net income growth typically reflects that the company is doing well fundamentally and is earning more every year.

In the Singapore context, net income for STI companies grew an average of 104.3% between 2009 and 2012. As detailed in the table below the three shares of the STI with the greatest net income increase as of 19 June were Global Logistic Properties, CapitaMall Trust and Genting Singapore.

STI Constituent	SGX Code	Market Cap (\$mil)	ICB Sector Name	Net Income / Profit: FY2009 (\$mil)	Net Income / Profit: FY2012 (\$mil)	2009 to 2012 change in NI (%)
GLOBAL LOGISTIC	MC0	12,707.09	Real Estate Investment & Services	46.01	678.10	1373.74
CAPITAMALL TRUST	C38U	6,898.19	Real Estate Investment Trusts	-65.19	536.33	922.79
GENTING SINGAPOR	G13	6,870.36	Travel & Leisure	-277.56	680.18	345.05
THAI BEVERAGE	Y92	5,191.57	Beverages	447.52	1145.75	156.02
OCBC BANK	O39	34,807.97	Banks	1962.41	3992.81	103.46
DBS GROUP HLDGS	D05	38,709.88	Banks	2041.00	3809.00	86.62
JARDINE CYCLE &	C07	15,277.86	General Retailers	743.95	1233.08	65.75
UNITED OVERSEAS	U11	31,566.26	Banks	1901.68	2803.09	47.40
OLAM INTERNATIONAL	O32	4,027.51	Food Producers	252.03	370.91	47.17
CAPITAMALLS ASIA	JS8	7,220.58	Real Estate Investment & Services	388.10	546.02	40.69

Top 10 companies with the greatest change in net income for the past 12 months

Source: Bloomberg (Data as of 19 June 2013)

## Equities versus other asset classes

### *Performance vs. other asset classes*

Over a ten year period spanning 2003 to 2012, the Singapore stock market (represented by the STI) averaged annual returns of 9.3%. This does not take into account dividend yields, which is currently around 3.0% per annum. In comparison, cash held in fixed deposit yielded an average annual return of 1.3%, while SGS Bonds yielded an average annual return of 2.6%. Over the same timeframe the Singapore housing market\* averaged annual returns of 6.3%.

All 30 STI Companies were profitable in the latest financial year; with more than half of the companies reporting increased net income over the past three financial years. This exemplifies why blue chip shares have been popular with investors in the past.

### *Why ETF*

One possible way of gaining exposure to the performance of the 30 STI shares without stock picking is through the Nikko Asset Management STI Exchange Traded Fund (ETF) and SPDR STI ETF. ETFs allow investors to build a diversified investment portfolio with minimum transaction costs.

### *Why STI is a diversified ETF*

The two STI ETFs provide a diversified portfolios of the 30 companies which make up the STI, which have a combined market capitalisation greater than all other shares and trusts listed on the Singapore Exchange (SGX). These two ETFs therefore allow investors to participate in the performance of the 30 large companies which make up the STI, while diversifying their risk across a variety of sectors.

*\*Based on Urban Redevelopment Authority Property Price Index by Residential Type.*

Information sourced by SGX My Gateway