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Monday, May 20, 2024

MARKETS

	WEEKLY	CHANGE
STI	3,313.48	+22.78
KL COMP	1,616.62	+15.95
NIKKEI 225	38,787.38	+558.27
HANG SENG	19,553.61	+589.93
SHENZHEN B	1,125.40	-0.74
DOW	40,003.59	+490.75

TOPLINE

ISDN gathers wind in sails from industrial automation evolution, chip upcycle
COMPANIES & MARKETS / 6



FOSSIL FUELS

Indonesia's near-term coal reliance could grow with Prabowo's nickel focus
THE BUSINESS OF ESG / 18

ASEAN BUSINESS

Malaysia Airlines' parent expands MRO business amid travel boom
TOP STORIES / 4



MIND THE GAP

Navigating bond funds: Yes to yields but risks aplenty in high-yield assets
TOP STORIES / 2

DAILY DEBRIEF

Oil-rich Sarawak wants greater investments in renewable energy

The state has gone from reliance on fossil fuels for 92 per cent of its energy needs in 2010, to a nearly 60 per cent reliance on hydropower in 2023. By 2030, it has a target for solar to account for 12 per cent of its energy supply, hydropower for about 50 per cent, and natural gas for much of the remainder. **TOP STORIES / 4**

Wilmar and Raffles Medical chairmen continue buying spree

Between May 9 and 16, Wilmar chairman and CEO Kuok Khoo Hong increased his total interest from 13.85 per cent to 13.91 per cent; between May 9 and 15, Raffles Medical executive chairman Loo Choon Yong raised his total interest from 53.95 per cent to 54.09 per cent. **COMPANIES / 10**

Musk, Indonesian health minister launch Starlink for health sector

Elon Musk says the SpaceX satellite Internet service – two in Bali and one on the remote island of Aru in Maluku – would help millions in far-flung parts of the country to access the Internet. **INTERNATIONAL / 14**

Wall Street's risk appetite stays strong despite high rates

In the eyes of bulls, financial conditions have yet to bite – a legacy of years of quantitative easing. It helps that the US economy has remained steady, supporting risk taking. A related theory holds that people remain conditioned to act as if the Fed stands ready in its role as market saviour. **WEALTH / 16**

Singapore firms turn optimistic as performance declines less sharply in Q1: BT-SUSS poll

Survey consultants expect Q2 GDP growth of between 3 and 3.3 per cent

By Tessa Oh and Elysia Tan
tessaoh@sph.com.sg
elysiat@sph.com.sg

SINGAPORE firms have turned optimistic about business prospects in the next six months, as performance declined less severely in the first quarter of 2024, according to the latest quarterly Business Times-Singapore University of Social Sciences (BT-SUSS) Business Climate Survey.

Net balances for the survey's performance indicators – sales, profits, and orders or new business – stayed in negative territory, indicating continued contraction.

However, the sales net balance was only marginally worse, while the other two saw double-digit improvements.

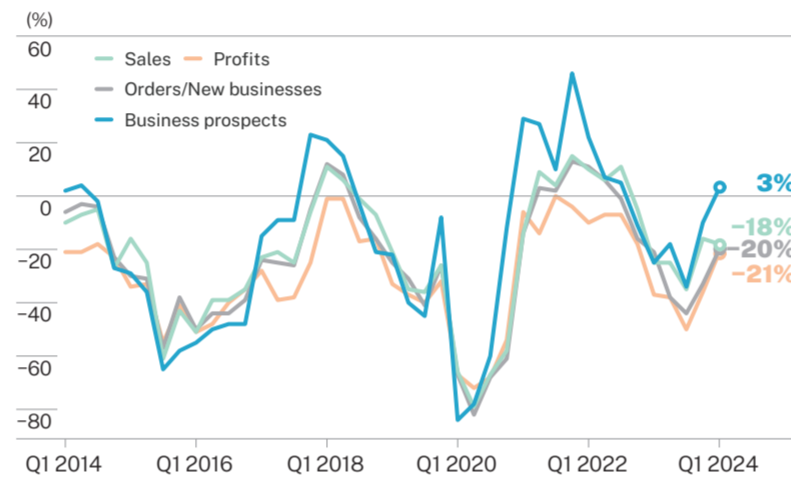
The net balance is the difference between the share of firms with an increase and those with a decrease in an indicator, compared to the year-ago period. A positive net balance implies expansion and a negative one, contraction.

The survey's results are consistent with the latest business expectations surveys, which showed that manufacturing and services firms are positive about the period from April to September, said DBS economist Chua Han Teng.

A net weighted balance of 22 per cent of manufacturers expect business to improve in those six months, compared to Q1 2024, according to Economic Development Board data.

Meanwhile, a net weighted bal-

Improving outlook



ance of 7 per cent of services firms expect a better outlook for the same period, according to the Singapore Department of Statistics.

In the BT-SUSS survey, the sales net balance stayed in contraction for the sixth straight quarter at minus 18 per cent, "little different" from the previous quarter's minus 16 per cent.

Large firms saw more contraction than small firms, and foreign firms fared worse than local firms.

However, sales net balances improved for all groups of firms compared to a year ago, which "could signal an imminent recovery in sales", the survey said.

The profits net balance improved for the second straight quarter, rising 15 percentage points to minus 21 per cent.

All groups of firms saw profits contract less compared to the previous quarter, as well as the

year-ago period. As for orders or new business, the net balance improved 13 percentage points to minus 20 per cent. Foreign firms were the only group where declines deepened.

Looking up

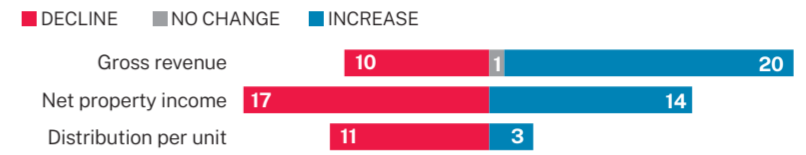
Overall, firms became slightly optimistic about business prospects for the next six months, compared to the previous quarter. The net balance for business prospects gained 13 percentage points, reaching 3 per cent. All groups of firms had positive net balances in the single digits.

In Q1, business conditions were weaker abroad than in Singapore. Sales contracted more in overseas markets, as did orders or new business.

This is consistent with weaker

Continued on Page 2

Weaker DPU for S-Reits in Q1



SOURCE: COMPANY ANNOUNCEMENTS GRAPHIC: TEOH YI CHIE, BT

S-Reit DPUs remain weak in Q1 but sector expected to ride out interest rate woes

By Raphael Lim
raphlim@sph.com.sg

REAL estate investment trusts (S-Reits), including property trusts, logged a sluggish performance in the first quarter of 2024 as sector headwinds of high interest rates and a strong Singapore dollar continued to weigh.

Of the 14 trusts that provided distribution per unit (DPU) data during their latest results or business updates, 11 reported year-on-year declines during the latest reporting period, data compiled by *The Business Times* (BT) showed.

Analysts say the subdued showing was in line with expectations, but some also believe that the sector may be in a better position to ride out the higher-for-longer rate environment.

"Sector DPU and net asset values remain under pressure which is in line with expectations despite ample support from divestment gains, realised foreign exchange gains, rental supports and non-cash fees," Maybank analyst Krishna Guha said.

Meanwhile, Darren Chan, senior research analyst at Phillip Securities, said it was no surprise that most Reits were impacted by higher year-on-year finance costs.

"As a result, distributions have been impacted despite improving operating performance," he said.

Just three S-Reits – Parkway Life Reit, Mapletree Pan Asia Commercial Trust (MPACT) and Mapletree Industrial Trust (MINT) – reported year-on-year improvements to

DPU in the latest reporting season. Most Reits and property trusts did not disclose distribution details in their quarterly updates.

Parkway Life's DPU for the first quarter rose 4 per cent, while MPACT's and MINT's fourth quarter DPU were up 1.8 and 0.9 per cent, respectively, amid higher revenue and net property income.

Other Reits on the Straits Times Index (STI) that reported distributions this quarter showed declines.

Mapletree Logistics Trust's (MLT) fourth-quarter DPU fell 2.5 per cent, while Frasers Centrepoint Trust and Frasers Logistics & Commercial Trust also saw DPU decline 1.8 and 1.1 per cent, re-

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MIND THE GAP

Navigating bond funds: Yes to yields but risks aplenty in high-yield assets

Bond funds enable diversification with modest investment, but steep redemptions at times of crisis can cause long-term investors to suffer



GENEVIEVE CUA
gen@sph.com.sg

IN FIXED income investments, the toss-up between a direct investment in a bond and a bond fund seems a no-brainer.

Here's the most obvious advantage: A fund enables you to diversify across a basket of issuers with a very modest lump sum of S\$1,000 or less if you opt to invest regularly. A direct investment in a single bond typically needs an outlay of at least S\$200,000 or US\$200,000.

But there are advantages too in holding single bonds – if you can afford it and have studied an issuer for credit strength.

My mother's portfolio, held under a trust, is a case in point. Judicious investments in issuances by the Philippine government and select bank bonds, held over long periods, have proved rewarding not just in terms of coupon distributions but also in terms of price appreciation.

A single bond, however, exposes you not just to the overall risks of bond investments – which include the interest rate, duration

and currency risks if the bond is denominated in a foreign currency – but also to the unique credit risks of single issuers, whether corporate or sovereign.

A credit event, which could take the form of a credit-rating downgrade or failure to pay interest or principal, could cause the market value of a bond to drop.

If your portfolio is, for instance, S\$1 million, and you hold two bonds, the mark-to-market value of your portfolio could be significantly impacted by a default. You may even grapple with permanent loss of capital should an issuer go bankrupt and the recovery rate is low.

Morningstar says a fund's exposure to defaults is, to a large extent, always bad. But it also pointed out in a paper late last year that the price of defaulted bonds begins to decline before the actual default.

Country Garden, for example, defaulted in October 2023, but its bond prices had been declining for several months. By the time of its default, the bonds were already trading at a distressed price of 0.05 on the dollar.

Morningstar said defaults can present tactical opportunities. But funds need to have the expertise to invest in distressed debt where the skill set differs from traditional bond investments.

To get diversification from a portfolio of direct bond investments, some private banks indi-

cate a portfolio size of at least S\$10 million to S\$20 million is needed.

Here are some aspects to note about investing directly in bonds versus bond funds.

Direct bonds vs bond funds

In actively managed bond funds, the manager has the flexibility to invest in a range of sovereign and corporate issuances, subject to the fund's mandate and risk limits. A bond fund, however, differs significantly from investing in a bond. The fund collects coupons from its holdings, which accrue towards the fund's total return.

The underlying securities are traded and may not be held to maturity. Regular distributions may be made from coupons, realised gains from the sale of securities, or from capital. Payouts funded from capital are to the detriment of investors, which I've written about earlier. A bond fund typically has no maturity date, although there are a small number of "fixed term" bond funds.

Fixed-term or fixed-maturity bond funds approximate the experience of holding a portfolio of individual bonds. In such a fund, the manager buys bonds and holds them to maturity. Just like holding a bond, you should receive income distributions every six months, and your principal at maturity.

UOB Asset Management, for example, rolled out the United Fixed Maturity Bond Fund, marketed



Unfinished residential buildings by China Evergrande Group. Evergrande defaulted on its bonds and was ordered to liquidate this year. PHOTO: REUTERS

through Tiger Brokers, in 2022. The fund has a three-year maturity. It was marketed as an alternative to endowments, and targeted returns of 4.95 per cent a year.

BT understands that the manager actively monitors the creditworthiness of the underlying securities, and has the flexibility to switch out should there be a credit event.

Bond funds' holdings are marked to market daily, and valuation is reflected in a single net asset value (NAV) price. A bond fund may show a price decline, which can be steep.

Asia high-yield bonds funds, for instance, were hit by exposure to China's troubled real estate sector between 2021 and 2022, including Country Garden and Evergrande. Evergrande defaulted on its bonds in 2021 and was ordered to liquidate earlier this year. Country Garden defaulted on US dollar bonds last year.

Some Asia high-yield funds suffered losses of nearly 40 per cent in 2022. Returns from this segment have recovered since 2023. But if you invested in 2021, you're likely still nursing a double-digit loss.

If you invest directly in a bond, the mark-to-market value of the bond is also reflected in your account. But if you intend to hold to maturity, fluctuations in the price value should not matter – as long as there is no default in coupons or principal.

Pain of heavy redemptions

A second risk of investing in managed funds – this applies to any unit trust regardless of the asset

class – is that a crisis could cause significant fund redemptions. These redemptions could deal a severe blow to a fund's NAV price, and may penalise those who stay invested for the long term.

Typically, an actively managed fund holds little in cash. A surge in redemption requests forces the manager to sell holdings to raise cash. This exacerbates losses, particularly if the sales are done when assets are already under severe pressure.

Endowus chief investment officer Samuel Rhee said fund redemptions are out of investors' control. "But the beauty of a fund is that there is always liquidity. Many people sell before or during the fall and lessen their losses – as opposed to single bonds which often do not have any liquidity and have to be sold through private banks with heavy discounts and commissions."

I stumbled upon some cases of steep fund redemptions during research for this piece. The Eastspring Asia High Yield Bond Fund, for instance, reported net assets at the start of 2022 of US\$616 million. At end-2022, net assets had fallen to US\$268 million. It reported a net realised loss on sale of investments of around US\$255 million.

BlackRock's BGF Asian High Yield Bond Fund also had significant redemptions. At the start of the fund's fiscal year 2023, it had net assets of US\$2.11 billion. This dropped to US\$1.51 billion at end-August 2023, a reduction of US\$600 million.

Eastspring Investments said the drop in assets partly resulted from

the demerger of Eastspring from M&G, which decided to manage some strategies in-house, including Asia high yield. The fund's latest assets under management of US\$192 million reflected this impact.

"The downward trend of NAV and fund assets under management has been in line with peers and the shrinking market cap of the Asian high-yield bond market as defaulted Chinese property bonds continue to drop out of the benchmark index, leading to a shrinking universe of 'performing' bonds," it said.

The firm has a "swing policy" since 2022 to protect investors in the fund from transaction costs that may arise from large outflows. Swing pricing seeks to protect investors from the dilution impact of large inflows and/or outflows.

When a market is in distress, as seen in the China property sector, liquidity could dry up and cause bonds' bid-ask spreads to balloon, raising the cost of selling. Swing pricing makes an adjustment to the fund's NAV to account for transaction costs incurred due to net inflows or outflows.

Those who are investing or redeeming bear the cost of the "swing". Managers have the discretion to decide on the method of swing pricing.

BlackRock analysed 169 funds in 2021 when swing pricing applied; it found that the funds were shielded from dilution effects by up to 55 basis points a year. The BGF Asian High Yield Bond Fund benefited from swing pricing by 48 basis points in 2021.

ADVERTISEMENT

Mr. Richard Hong honoured with the Medal of Commendation at the NTUC May Day Awards 2024



Mr. Richard Hong, CEO, TÜV SÜD ASEAN, has been conferred the Medal of Commendation at the NTUC May Day Awards 2024 in recognition of his invaluable contributions to the Labour Movement and the Singapore Industrial and Services Employees' Union (SISEU). The Medal of Commendation is awarded to senior management who, besides promoting good industrial relations and initiating workers' training and skills upgrading programmes, also supported the Labour Movement and its initiatives.

Mr. Richard Hong's leadership has been instrumental in advocating for sustainability as part of the organisation's DNA, championing sustainable HR practices in areas such as diversity and inclusion, employee development, total rewards, and work-life harmony.

His commitment to fostering job security, promoting employee growth, championing an open-door policy, and implementing engagement and welfare initiatives has played an integral role in TÜV SÜD obtaining the status of a Human Capital Partner and attaining the Progressive Wage Mark in Singapore. To provide employees with growth opportunities, TÜV SÜD has collaborated with Republic Polytechnic and Avodah People Solutions to implement the company's Career Development Frameworks, empowering employees to co-create their career development plans. To facilitate the recruitment of recent graduates and individuals seeking to transition into a new career path, TÜV SÜD also has participated in the Career Starter Lab and Career Conversion Program.

Mr. Richard Hong's appreciation for the union partnership is evident through his inclusion of SISEU in TÜV SÜD's celebrations and milestones such as the collaboration with NTUC LearningHub to introduce a new ISO credential pathway for business sustainability management professionals.

The Medal of Commendation, a testament to his dedication to creating a safe and inclusive work environment, also exemplifies one of TÜV SÜD's core leadership commitments – Focus on inclusiveness and people growth globally, with the aim to build a culture that enables everyone to thrive and contribute globally.

TÜV SÜD is a trusted partner of choice for safety, security and sustainability solutions. It specialises in testing, inspection, certification, auditing and training services. Through more than 28,000 employees across over 1,000 locations, it adds value to its customers, inspiring trust in a physical and digital world to create a safer and more sustainable future. This commitment to excellence makes TÜV SÜD an employer of choice, where individuals find purpose and growth.



For more information on TÜV SÜD, visit: www.tuvsud.com/sg



Scan to view Mr. Richard Hong's award citation

Content Provided by TÜV SÜD



Singapore firms turn optimistic as performance declines less sharply in Q1: BT-SUSS poll

Continued from Page 1

export performance in Q1, with non-oil domestic exports falling 3.4 per cent, said Maybank regional co-head of macro research Chua Hak Bin.

In contrast, services growth was boosted by stronger domestic conditions, with higher tourist arrivals and high-profile events such as Taylor Swift's concerts.

But Dr Chua expects stronger export demand in the coming quarters, as the rising demand for electronics broadens to more segments. This will turn export growth positive, he said.

Accelerated growth

As reported earlier, Singapore's economy grew 2.7 per cent in Q1 2024, faster than the previous quarter's 2.2 per cent rate, according to official advance estimates.

The survey consultants expect Q2 gross domestic product growth of between 3 and 3.3 per cent. This is only slightly higher than the preceding quarter "in view of continued political conflicts and impact of severe weather". This is in line with Maybank's Q2 growth estimate of 3 per cent. But Maybank expects the Q1 growth figure to be downgraded to 2.2 per cent, after weaker-than-expected manufacturing performance in March.

Singapore's factory output reversed into negative territory in March, contracting 9.2 per cent year on year on double-digit de-

clines in the electronics and biomedical clusters.

In contrast, DBS' Chua felt that the consultants' Q2 estimate is optimistic, saying: "In our view, Singapore's external-led growth recovery still faces global uncertainties, such as ongoing geopolitical tensions that could disrupt supply

Firms were asked if they faced a credit crunch in 2023. Three-quarters of the firms did not, but 7 per cent faced a credit crunch more than thrice. Manufacturing firms were the most affected.

chains, and economic policy uncertainty, such as the timing and extent of potential United States interest rate cuts."

Timely payments?

Among the various sectors, construction was the top performer for the third straight quarter – though it took 11.5 out of 20 top positions, fewer than in the previous poll.

It was overall top for sales, orders or new business, and business prospects, but lost the top spot in profits to the financial

and business services sector.

Separately, the survey asked firms how quickly they received payments from clients in 2023.

For slightly over half of respondents, the fastest payments came in within a month. For another 41 per cent, the fastest payments arrived in two to three months.

As for slowest payments, just under one-third of firms received these within four to six months. A quarter of firms received payments only after a year or more.

Firms were also asked if they faced a credit crunch in 2023. Three-quarters of the firms did not, but 7 per cent faced a credit crunch more than thrice. Manufacturing firms were most affected, with 14 per cent having a credit crunch more than thrice.

Comparing 2023 and 2022, 64 per cent of respondents saw similar payment schedules. Payment schedules worsened for 21 per cent, but improved for 15 per cent.

By sector, the fastest payments were seen in wholesale and retail trade. Construction was the only sector where the fastest payments still took more than a year.

Suffering most from slow payments was the financial and business services sector, with four in 10 firms receiving overdue payment beyond a year.

Conducted from Mar 11 to Apr 11 this year, the survey covered the performance of firms in Q1 and their outlook for April to September, compared to the year-ago period.