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8-9% return expected for S'pore stocks

Prudential Asset says economic, corporate factors haven't changed

By **WONG WEI KONG**

MARKETS may remain volatile but the fundamental picture remains supportive of equities and the Singapore market is expected to return close to 10 per cent, according to fund manager Prudential Asset Management (PAM).

'Singapore will likely perform at least in line with the rest of the region for the remainder of 2006,' Robert Rountree, head of investment services of PAM in Hong Kong, said in an email interview. 'We see little downside and anticipate a long-term equity return rate for Singapore of 8-9 per cent. It is important to keep in mind that the economic and company-related factors that drove Singapore higher before mid May have not changed.'

Economic growth has been firm enough to prompt the government to raise its 2006 GDP growth forecast to 4-6 per cent from 3-5 per cent. Corporate earnings have also been positive. While Singapore stocks trade at a premium to shares in Thailand and Indonesia, the recent correction has made Singapore valuations less demanding relative to the market's history.

'A major ongoing concern will likely be the path of US interest rates, which in turn, reflects the ebb and flow of US inflation fears,' Mr Rountree said. 'Prudential's long-held view has been that rates could move higher than generally anticipated, given that the rise so far has had only a limited impact on US growth. We are less inclined to subscribe to the surging inflation view. Core US inflation (excluding food and oil) has fluctuated around 2.1 per cent for the past year.'

In Singapore, PAM is keeping its eye on corporate earnings and property prices. Corporate earnings announced in the first quarter generally met or exceeded investor expectations. 'The outlook is good enough to have caused some analysts to raise their earnings forecasts sufficiently to push the aggregated consensus forecast higher,' Mr Rountree said. 'Renewed confidence has fed quickly through to the property sector. Prices for high-end residential property have increased and, if this spreads to the mass market, then property company earnings and asset values will be affected. An uptick in property will ripple through to the benefit of the banking industry.'

Bank stocks still trade at low valuations, and the sector will benefit from economic growth and rising property prices, he said. 'July is a red-letter month for the industry. Singapore banks must divest non-core assets by July. Investors will be eager to see what the banks do with the proceeds. Will excess capital be returned to shareholders? Will it be spent on acquisitions overseas? Will acquisitions be made at reasonable prices in growth areas? Or will they be made in mature markets at high valuations?'

The airline sector may also benefit from corporate restructuring. Telecom valuations appear undemanding, and telcos have been improving their capital management and paying a larger share of earnings as dividends, Mr Rountree noted. PAM's model portfolio is exposed to the banks, selected properties and other areas that should benefit from rising domestic demand, he added.

The Prudential group has US\$400 billion of funds under management globally. As of March 31, 2006, PAM Singapore had S\$34.96 billion of assets under management, of which S\$12.07 billion were discretionary funds managed in Singapore.

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