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Singapore: Victim of Geography?

By Mark Thompson, AsiaWise

19 Jun 2001 10:30 (GMT +08:00)

Singapore has had one of the worst performing markets in the world lately, and analysts offer two explanations. The worldwide slump in technology spending has hurt Singapore companies that are dependent on tech exports. And the country has been stigmatized by political troubles afflicting its ASEAN mates, particularly nearby Indonesia and Malaysia.

Analysts aren't expecting dramatic changes for the better anytime soon. But fund managers have found several stocks in Singapore worth adding to their portfolios. These include **Venture Manufacturing Ltd.**, a contract manufacturer of electronics, and **Datacraft Asia Ltd.**, which develops, markets, and services corporate information networks operating out of a network of 60 sales and support offices scattered throughout Asia.

Both stocks were recently among the top 10 holdings in the US\$12 million **Matthews Asian Technology Fund**, which has gained over 2% in the year to date, outperforming most other funds in the Asian and technology categories. Eswar Menon, manager of the US \$3 million **Loomis Sayles Emerging Markets Fund**, has also recently added Venture Manufacturing and Datacraft to his portfolio. "They are good quality companies with good management, and we've seen prices that are attractive so we've picked up a long term position in those companies," Menon told *AsiaWise*.

Menon's confidence in the two companies hasn't been rewarded yet. Venture Manufacturing, which has lost 38% over the past year, has dropped 13% in the last month. Datacraft has lost 46% in the past year, and it too has shown no signs of new life, having lost 7% in the past month.

Menon isn't about to write off Singapore. He said he is keeping a close eye on the market, which could be in for a strong rebound if political unrest in neighboring nations subsides. "With the underperformance and the possibility that things in places like Indonesia might settle down, we are taking a look at increasing our position in the Singapore market," he said. "But we haven't done so yet."

He won't name specific companies that he might add to those he currently owns, but he notes: "There's restructuring and mergers and acquisitions activity in the banking sector. So that's one area we're taking a look at. And we'll also consider others where we see reasonable valuations relative to growth."

There is no shortage of reasonably priced stocks in Singapore, but most funds are staying on the sidelines for now, anyway. As **Investec Asset Management**, which recently reduced its position in Singapore from overweight to neutral, observed in a recent report, the "Singapore stock market is not expensive but is lacking a catalyst for a strong rally."

Beyond the global tech slump and ASEAN's troubles, the fact that the Singapore

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Beyond the global tech slump and ASEAN's troubles, the fact that the Singapore economy turned in stellar GDP growth of 9.9% in 2000 is yet another reason why the market is suffering this year, when the growth rate is likely to be cut at least in half. Singapore banks, for example, "showed healthy profit growth in 2000" but as a result "will struggle to increase their profits this year unless the loan book expands and, with the slower global economy, this seems unlikely," Investec explained.


Credit Suisse Asset Management outlined reasons for both pessimism and optimism about Singapore in its own June 8 report. On the downside, the Singapore economy "is flirting with recession, with manufacturing slowing for the fourth straight month in May and inventories still high, though being cleared." Forecasts for 4-5 percent GDP growth this year "look shaky as hopes for a V-shaped recovery in the U.S. fade and Japan's economic woes continue to mount." Domestically, "consumer confidence is slipping in the face of shorter workweeks and other cost-cutting measures by the business sector. And people are bracing themselves in case Indonesian President Abdurrahman Wahid's efforts to cling to power spawn fresh violence within their giant neighbor's borders."

But there's a brighter side to the story. "Bumpy as the current ride has been, most investors are hoping that Singapore won't change course," Credit Suisse observed. "Its benefits were recently enumerated by U.S. ratings agency **Standard & Poor's**, which cited strong economic fundamentals, pragmatic foreign policies, a strong banking sector and stable, risk-averse government in reaffirming the city-state's triple-A credit rating."

Meanwhile, exports orders are beginning to inch up on the back of a weaker Singapore dollar, Credit Suisse noted. And investors in Singapore, as investors everywhere, are hoping that the **U.S. Federal Reserve** will signal its determination to keep the U.S. economy from slipping into a recession by announcing yet another interest rate cut.

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[236]