

Despite blips, SingTel rides the cycle best

Wealth-added ranking shows how firms did across business cycle, in good times and bad

By GENEVIEVE CUA

[SINGAPORE] Singapore's top companies – in terms of their ability to create wealth for shareholders – are unlikely to hold on to their top spots in a time of severe economic and market stress, a study by consulting firm Stern Stewart has found.

But investors who stayed invested can take comfort from these companies' ability to deliver a return above their costs of capital.

Stern Stewart has produced a ranking of Singapore's top 100 listed firms through a business cycle. This is the first time it has done a ranking that captures its metrics – relative wealth added (RWA) and the wealth added index (WAI) – over a business cycle. The entire business cycle in its calculation spans 2001 to 2009. The expansionary period was from March 2001 to October 2007, and the downturn was between October 2007 and March 2009.

Stern Stewart developed the "economic value added" (EVA) metric in the 1980s for an indication of whether a company has produced value for shareholders. It takes the after-tax operating profit and subtracts an annual charge on debt and equity. The latter represents the cost of capital and is a hurdle that companies should beat.

The caveat in the 2009 WAI rankings is that market capitalisation – and hence, share prices – figure largely in the calculations. This magnifies the volatility of the rankings, particularly for large companies such as Singapore Telecommunications. The top companies in the expansionary phase (2001 to 2007) literally plunged to the bottom of the list in the contractionary phase (2007 to 2009).

In the 2009 ranking of top 100 Singapore firms throughout a business cycle, Singapore Telecommunications held pole position, followed by Singapore Exchange and SMRT Corp.

In the expansionary phase, the top three were SingTel, CapitaLand and Keppel Corp. In the contractionary phase, the top spots went to Singapore Food Industries, Straits Trading Co and IPC Corp.

What may be more interesting are the regional rankings by industry. In banking, for instance, Indonesian bank Bank Central Asia and Malaysia's Public Bank took the top two spots throughout the business cycle, and even through the expansionary and contractionary phases. DBS Bank ranked 29th through the three time periods.

In diversified financials, Singapore Exchange was ranked Not 1 through the business cycle, but fell to 19th spot in the contractionary phase.

Singapore Press Holdings took the top spot across the business cycle among seven regional media companies; fell to the seventh place in the expansionary phase; and bounced back to pole position in the contractionary phase.

Says Erik Stern, president, international at Stern Stewart: "Our philosophy is that companies should be focused on beating the cost of capital for both equity and debt holders. All projects and activities should be focused on this and not on return measures or profit measures like Ebit or Ebitda."

"We do the rankings because we want to encourage the business community to think that this is important. This is an ownership mindset."

"If managers are focused on other measures, they are not thinking like owners, but like employees. If they do that, they're sacrificing wealth. They may be great wealth creators, but it's by accident and not by design."

The firm's view is that companies should focus on EVA as an internal measure rather than the share price.

The wealth added metric was developed in 2000 to measure how much

The top 10

BUSINESS CYCLE				
Rank by WAI	Company	Industry	WAI	RWA
1	Singapore Telecommunications	Telecommunication services	4,152	24,045
2	Singapore Exchange Ltd	Diversified financials	1,563	6,549
3	SMRT Corp Ltd	Transportation	1,269	2,539
4	Asia Food & Properties Ltd	Food beverage & tobacco	874	970
5	Straits Trading Co Ltd	Capital goods	804	1,651
6	NSL Ltd	Materials	503	282
7	Jardine Cycle & Carriage Ltd	Retailing	266	3,499
8	Wheelock Properties (S) Ltd	Real estate	212	436
9	Chuan Hup Holdings Ltd	Transportation	153	42
10	Golden Agri-Resources Ltd	Food beverage & tobacco	133	4,405

CONTRACTION				
Rank by WAI	Company	Industry	WAI	RWA
1	Singapore Food Industries	Food beverage & tobacco	46	478
2	Straits Trading Co Ltd	Capital goods	(31)	1,613
3	IPC Corp Ltd	Real estate	(39)	18
4	IDT Holdings Singapore Ltd	Technology hardware & equipment	(51)	10
5	Lindeteves-Jacoberg Ltd	Capital goods	(75)	(42)
6	Nera Telecommunications Ltd	Technology hardware & equipment	(76)	46
7	PCI Ltd	Semiconductors	(77)	1
8	Informatics Education Ltd	Consumer services	(90)	(33)
9	Datapulse Technology Ltd	Technology hardware & equipment	(95)	28
10	IPCO International Ltd	Capital goods	(97)	(36)

EXPANSION				
Rank by WAI	Company	Industry	WAI	RWA
1	Singapore Telecommunications	Telecommunication services	36,985	915
2	CapitaLand Ltd	Real estate	17,287	7,388
3	Keppel Corp Ltd	Capital goods	17,228	9,209
4	Singapore Exchange Ltd	Diversified financials	15,299	11,264
5	United Overseas Bank Ltd	Banks	15,028	(7,403)
6	Oversea-Chinese Banking Corp	Banks	14,921	(3,172)
7	COSCO Corp Singapore Ltd	Capital goods	13,843	11,145
8	DBS Group Holdings Ltd	Banks	12,716	(9,479)
9	Singapore Airlines Ltd	Transportation	9,365	(7,410)
10	City Developments Ltd	Real estate	9,066	1,782

WAI: Wealth added index RWA: Relative wealth added

Sources: Stern Stewart ranking, WAI & RWA stats from Bloomberg

wealth a company generates after deducting a required rate of return. A positive value means the firm is creating wealth; negative means it is destroying wealth.

The wealth added index (WAI) is based on the idea that firms create value for shareholders only if their total returns – share price plus dividends – exceed an imputed "cost of equity". The latter reflects the minimum return that investors should earn for taking on the risk of investing in equities.

The WA metric takes daily performance and inflation into account.

Perhaps the biggest testimonial for the concepts of WA and EVA is Temasek Holdings which uses them in its disclosures. In its 2008 review, for instance, wealth added in 2008 was negative – a loss of \$6.3 billion, after a positive WA of \$23.4 billion in 2007 and \$15.6 billion in 2006. It also captures EVA numbers for its portfolio holdings.

Stern Stewart set up an office in Singapore in 1997 mainly to work with the Temasek group. It closed it after about five years, but has now re-established itself here with a consultancy practice.

"Not all Singapore firms

manage for value and many that do could improve their systems. Recessions allow companies an opportunity to question their systems and give them the purpose to make changes that success delays. The competitive climate that Singapore companies face in future will demand robust management and compensation systems."



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