

BUSINESSMAN OF THE YEAR

Unlocking value in Straits Trading

Keeping the end in mind, executive chairman Chew Gek Khim laid the key building blocks that set the stage for growth.

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28 Apr 5:50 AM

THE work of transforming The Straits Trading Company into a major player in real estate, hospitality and resources is unfinished, says executive chairman Chew Gek Khim in her own assessment. Yet, the crucial steps of building its key business platforms are over.

"It's time to get the system running," says Ms Chew, also the executive chairman of Tecity Group, her family investment vehicle that controls Straits Trading.

One could argue that the transformation of the 127-year-old Straits Trading would not have been possible without Ms Chew's success in taking control of the company from the Lee family of OCBC Bank back in 2008 in a takeover.

Since she took over the reins at Straits Trading, the firm has morphed from one laden with low-yielding hard assets to an investment holding company with key interests in real estate, hospitality and resources.

Now, Straits Trading is the key public-listed arm of Tecity, founded by her late grandfather Tan Chin Tuan, a legendary banker and philanthropist. Tecity also undertakes philanthropic work through the Tan Chin Tuan Foundation (TCTF) and investments for the family office.

Ms Chew recalls that while Straits Trading started off with good assets in real estate and hospitality, it was deemed too small in today's environment.

After several board discussions and reflections, a decision was made to monetise the hard assets to re-invest capital into higher-yielding ventures. But the plan was hampered by the onset of the global financial crisis as asset values took a plunge.

"The end point was very clear. We wanted to have a stake in a much larger entity that was better suited to compete in the world of real estate; that was better suited to compete in the world of hospitality," she says.

STRATEGIC SHIFT

Opportunities surfaced as suitable partners came along. This culminated in a strategic alliance in real estate with ARA Asset Management and its chief executive John Lim as well as a hospitality tie-up with Far East Orchard. With that, Straits Trading created growth platforms in real estate, fund management and hospitality.

Straits Real Estate (SRE), 89.5 per cent owned by Straits Trading and 10.5 per cent owned by the John Lim Family Office, was incorporated in November 2013 with a capital commitment of up to S\$950 million and with ARA Asset Management as the strategic partner. Straits Trading also took a 20.1 per cent stake in ARA Asset Management Ltd, and a 6.1 per cent stake in Suntec Reit.

In Straits Trading's 30-70 joint venture with Far East Orchard in April 2013 to form Far East Hospitality (FEH), both parties injected their hospitality assets into FEH and agreed to pursue new opportunities together. This allowed Straits Trading to scale up quickly from 3,000 rooms under its Rendezvous brand to over 13,000 rooms across 80 properties in Asia-Pacific.

Likening all this to designing an engine that could run optimally, Ms Chew says that the group is ready to "talk about the next big steps".

Straits Trading plans to acquire more properties through SRE, and eventually monetise them through the Reits platform.

SRE has made its first acquisition - a retail development called Times Midtown in Chongqing, China for 668.4 million yuan (S\$141.6 million) last December. A development fund of US\$80 million has also been set up under SRE to look into development projects in Australia and South-east Asia.

"Right now, there are opportunities in China," she says. "If you look at the team, its experience and strengths actually lie in North Asia, China, Japan and Taiwan, so in that respect, it's a very logical market to go into."

Unconstrained by geography or the type of investments, the fund is expected to reap high returns since it can take on higher-risk development projects, debt backed by real estate or distressed assets.

Straits Trading has also set up SRE Capital, which just obtained a capital markets services licence from the Monetary Authority of Singapore in April. Initially, SRE Capital will manage a dividend-paying income fund that trades mainly Reits and other listed real estate equities in Asia-Pacific. This fund is gunning for a yield of 8-10 per cent, above the 5-6 per cent yield that Reits currently offer. It has a seed capital of S\$130 million from SRE.

As for its metals and mineral resources business under 55-per-cent-owned Malaysia Smelting Corporation Berhad (MSC), Straits Trading is looking for the right opportunities and partners to scale up the business.

PAINFUL MOVES

In the process of change, painful decisions had to be made, starting with the takeover of Straits Trading in 2008, which saw her bidding against the founding Lee family of OCBC Bank. Tecity was founded by her late grandfather Mr Tan, a long-standing chairman of OCBC. The Lees and the Tans were linked for decades through OCBC.

Straits Trading has its roots dating back to colonial-era Singapore. After the Great Depression and two world wars, it was eventually acquired by OCBC when the British were pulling out of Singapore. Other acquisitions made by OCBC during Mr Tan's tenure included Raffles Hotel, Singapore retailer Robinson & Co, beverage conglomerate Fraser & Neave, Malayan Breweries (now known as Asia Pacific Breweries), and WBL Corporation.

Ms Chew says: "I can only say that my grandfather wanted me to keep something that he felt he had built up. It was a sense of national pride."

Earlier moves by Ms Chew to acquire Raffles Hotel and Robinson didn't pan out. Her attempt to acquire WBL Corporation in late 2012 with the view of revitalising the century-old WBL was dropped after United Engineers (UE) enlisted OCBC Bank, Great Eastern Holdings and OCBC's founding Lee family in its counter-bid.

Though Straits Trading was successfully brought into Tecity's fold, it had to first bite the bullet by making massive impairments for its hospitality and non-tin assets that dragged the group into the red for several financial quarters. Earlier, MSC had made "the mistake of going into all sorts of mining activities that were unrelated" to its core tin business. The group also had to make initial impairments for its hospitality assets, stemming from certain problem leases inked by the previous management.

One of the biggest challenges post-acquisition, Ms Chew concedes, was the changing of mindsets given that "this is a company that has done things in a certain way for a very long time".

It also didn't help that the gestation period took longer than she had expected. In the meantime, being transparent and honest with shareholders is important, Ms Chew says.

"If it's going to be a tough year, I will tell them it's going to be a tough year. It's no point telling anything other than the truth because it's going to come back anyway," she says matter-of-factly.

Straits Trading's investment in ARA and Suntec Reit is paying off immediately since they are ongoing businesses, while FEH will take time to scale up its hotel business. SRE may see returns from the properties it acquires only two to three years down the road.

"The real test is not how quick the returns will come but rather, whether you will start seeing a gradual increase in returns. Then, you will know you are on the right track," she says. Once earnings lumpiness ceases, the group will be able to pay a higher sustainable dividend to shareholders.

The management has sought to be consistent in communicating its direction and vision, so that it is not perceived as flip-flopping.

HONOURED

Last year, Ms Chew hit the Forbes' list of Asia's 50 power businesswomen for turning Straits Trading into a dynamic holding company with interests in real estate, fund management, hospitality and resources.

Ms Chew has sat on several corporate boards. She is also chairman of Suntec Reit, deputy chairman of ARA and is an independent director at Singapore Exchange.

She receives another honour this time at the Singapore Business Awards by clinching the Businessman of the Year Award 2015 - the second woman in SBA's history to bag this award.

"I don't think my work has finished. In a way, the market has voted before the results, so I'm very honoured," she says. Her vision for Straits Trading remains firm - that is to be an investment company with stakes in businesses where it can add value.

"By adding value to these investee companies, we enhance the returns of our investments."

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