On target with stock analyses

Quad Investment's contrarian 'sell' calls win SMU quartet CFA award, WEE JUN KAI reports

On Oct 31, 2007, Quad Investment initiated a "sell" call on SingTel shares with a target price of $3.68, which represented a discount of 9 per cent to prices then. They cited unsustainable growth of SingTel's associates and increasing competition in the acquisition of high-value telecommunication companies in the region as the main factors supporting their call.

Regardless of the reasons, though, investors would have done well to heed the call as SingTel share prices fell by 2 per cent in November alone. The stock closed at $3.69 last Thursday just before the long weekend.

Never heard of Quad Investment before? Well, maybe it is because they are a group of four undergraduates from the Singapore Management University (SMU) who participated in CFA Singapore's inaugural University Investment Research Competition 2007. Participating groups were required to conduct investment research and analyses into companies listed on the Singapore Exchange (SGX).

"We decided to sign up because we were all like-minded in our interest in finance. We felt that it would be a lot of fun, good exposure and a great learning opportunity for us," said Li Jinquan, one of the members of Quad Investment.

Quad Investment eventually emerged the overall champion. According to CFA Singapore, the judges found the quality of their research and presentation comparable to junior analysts in the industry.

How did they pull it off? No secret insider contacts or exclusive sources here, they said.

"We used information readily available to the public, such as the company's prospectus prepared for its IPO, information from Bloomberg and Reuters, as well as material from investment firms," said Mr Oh.

For the finals, the team chose to analyse China XIN Fertiliser, one of three relatively under-researched SGX-listed companies from a designated list, which also included China Lifestyle Food & Beverages Group and China Sunshine Chemical Holdings.

Although the team was a little daunted by their unfamiliarity with the Chinese fertiliser industry, it helped that all the team members were members of SMU's Student Managed Investment Fund (SMIF), which maintains a virtual portfolio of real world assets.

"We had the practical knowledge from our involvement in SMU's SMIF, especially in terms of research and presentation skills," said Mr Li.

Yet the one thing that distinguished Quad Investment from the rest of the finalists was the very thing that induced sniggers from the audience during their presentation.

Mr Oh said: "While most teams were pretty bullish about the companies, we took a contrarian view and made a 'sell' call on China XIX. According to our research, we found that the company's business strategy of low-cost differentiation could be easily replicated by its competitors."

"In addition, while the industry faces a short-term supply-demand imbalance since China ceased imports of fertilisers, various factors including the overuse of fertilisers in China, dwindling arable land as well as the shift of demand to less profitable compound fertilisers will limit China XIX's performance in the long run," added Mr Tee.

Their insights did not come without sacrifice. The team was hard at work late into the night before the final presentation day, which happened to be Mr Tee's birthday as well.

Their hard-fought victory does come with its perks, though. Besides a shiny trophy and bragging rights, each team member also walked away with a CFA scholarship and an industry internship, which would go a long way towards their career prospects.

In fact, the University Investment Research Competition is just the Singapore leg of the CFA Institute Global Investment Research Challenge. Quad Investment will go on to the Asia Pacific regional finals next month and, potentially, the global finals in May, to take on champion teams sponsored by CFA societies from other major financial centres.

Even with these competitions ahead, the students are keeping in mind a fundamental hurdle that they would have to face like any other student.

"Our exams begin the day after we return from the competition, so I think we'll even be studying on the plane," said Mr Ong.