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S-Reits may gain if China citizens allowed to invest in securities abroad

BY : RAE WEE

SINGAPORE'S real estate investment trusts (S-Reits) could benefit if China changes its rules to allow its citizens to invest in overseas equities.

The mainland is considering easing capital controls to allow its citizens to invest in overseas securities and insurance products, a senior foreign exchange official said last Friday.

The State Administration of Foreign Exchange (SAFE) will conduct a study to see if it can allow domestic investors to use their annual forex quota for purchases of securities and insurance offshore, said Ye Haisheng, director of the capital account management department at SAFE, in an interview published in China Forex Magazine.

Under current rules, Chinese nationals are given a forex quota of US$50,000 a year, but are restricted from using it to make direct overseas investments, such as buying property, securities or investment-style insurance products.

Chi Lo, senior economist for Greater China at BNP Paribas Asset Management, said the move "signals Beijing's continued efforts to liberalise the RMB (renminbi) by reducing FX intervention, so that the RMB exchange rate will become more market-determined".

The move is also "a big paradigm shift", said Song Seng Wun, economist at CIMB Private Banking Singapore, as it indicates that "Chinese policymakers are more confident about the yuan and capital flows".

But the extent to which the Singapore Exchange would benefit from the potential change remains to be seen, he added. "At the end of the day, it still boils down to how attractive Singapore equities or any other investment products are to any investor… It still boils down to the market fundamentals."

Similarly, Eddy Loh, senior investment strategist at Maybank Group Wealth Management, said that if the rule change were to occur, the increased liquidity flows from onshore Chinese investors to overseas equity markets would likely "go mainly to major global markets, such as the (United States), at the onset".

He added: "While Singapore equities may eventually benefit over time from the flows, the initial impact will likely be limited."

However, Mr Loh noted that a potential standout are the S-Reits, given that the sector offers exposure to Singapore and global property markets. "It could appeal to the Chinese investors, especially those looking for steady income growth in their respective portfolios."

Kum Soek Ching, head of South-east Asia research, private banking research, at Credit Suisse, agreed.

"I can easily see interest in S-Reits from Chinese investors seeking yield and the stability of the SGD (Singapore-dollar)," she said. With the Republic's reputation as a global Reit hub across sectors like hospitality, retail, office and industrial, "investors seeking diversification in their property exposure could find this appealing".

The average yield of around 5 per cent, she noted, is also among the highest in the region, and there is no withholding tax on the distributions for individual investors.

S-Reits aside, Ms Kum added that since most of the market constituents in Singapore are relatively more mature and lower growth as compared to the Chinese stocks, it is unlikely that the local stock market will be a "major port of call" for such flows.

Nonetheless, the potential easing is seen as a positive move.

Carmen Lee, head of OCBC Investment Research, said that it could, over a long period of time, benefit Asian equities, and Singapore companies with a strong business presence in China "could also be re-rated over time".