Building long-term investor perception

Winners of Best Investor Relations avoid pitfalls of short-termism, says Lynnette Khoo

While good investor relations may translate to better stock valuations, this does not seem to bother companies that lead the pack in good investor relations (IR) practices.

Instead of focusing on one single indicator subject to the vagaries of market conditions, these companies have avoided the pitfalls of short-termism and instead, focused on building positive long-term investors’ perception.

This involves the hard work of consistent, timely, and fair disclosures, being accessible and engaging all stakeholders through various channels.

“Key performance indicators (KPI) for any IR team should be based on the timeliness and consistency of reporting of key issues raised by investors and analysts, how the team helps investors make better decisions and also how they present the company to potential investors,” says Singapore Airlines (SIA) divisional vice-president for finance, Chia Siok Hua.

Stock price performance may not be an accurate indicator, as the overall performance of the business and industry outlook often have greater impact on stock prices, she adds.

Broader KPIs

SIA, which won Gold for Best Investor Relations in the large-cap category, exemplified the need to communicate even adverse information when it released in 2010 an announcement estimating the financial impact of the flight disruptions due to the Iceland volcano eruption.

In a move to enhance transparency, it has started to include SilkAir’s operating statistics in its monthly operating traffic release to the public since July.

In the past, only SIA Cargo and SIA operating statistics were available to the public.

Micro-Mechanics executive director Chow Kam Wing also notes that “it may not be meaningful to just use share price as a single barometer of the quality of a company’s IR”.

“In fact, there are many pitfalls that could occur when share price performance is considered the most important KPI for IR, such as short-termism, creative accounting, selective disclosure and even concealment of negative developments in the company,” Mr Chow says.

Micro-Mechanics, which clinched Silver for Best Investor Relations under the small-cap category, believes that investors’ perception of the company is a useful gauge of the effectiveness of its communications.

It also considers independent endorsement from third parties, such as the Governance and Transparency Index (GTI) score compiled by the Centre for Governance, Institutions and Organisations at the NUS Business School. Micro-Mechanics’ GTI score has improved to 68 this year from 58 previously.

Del Monte, Gold winner for Best Investor Relations in the mid-cap category, considers a broad range of KPIs, including investor interest as reflected in the number of meetings requested, invitations to brokers’ conferences and forums and analyst coverage.

“At the end of the day, a company needs to focus on its business and generate profits and shareholder value. Once it has achieved this, the share price performance should follow,” says Del Monte chief financial officer Ignacio Sison.

Like Del Monte, two other foreign issuers – STX OSV and Mercator Lines (Singapore) managed to clinch Best Investor Relations Award this year, demonstrating that having overseas operations and management does not hinder them from being accessible to shareholders.

Reaching out

STX OSV, Merit winner for the category of first-year listed companies, says it tries to bridge the distance with frequent non-deal roadshows and “Corporate Access” days to reach out to institutional investors.

“Following Q1 2011 results announcement, we have visited KUALA LUMPUR, Singapore, Hong Kong, London, Paris and New York in this respect,” says senior vice-president for investor relations, Holger Dilling.

“We are also planning a retail investment talk in Singapore at the end of July,” he adds.

For CapitalLand, Silver winner for Best Investor Relations among large-cap companies, it has also been holding retail investor day to proactively engage retail investors and debt investor forum to directly engage fixed-income investors, says senior vice-president for IR, Harold Woo.

Technology has certainly enhanced companies’ accessibility to investors.

It has also allowed companies to widen their reach and ensure fairness in disclosures.

“Timely and regular website updates, automatic e-mail alerts to registered investors, video conference and conference calls with investors from different geographies are some of the tools which are frequently used for IR functions,” says Girish Agarwal, vice-president for strategy at Mercator Lines (Singapore), which clinched Silver in the mid-cap category.

Some companies like SIA, Micro-Mechanics, Qian Hu and Singapore Press Holdings (SPH) have been making presentation materials used at quarterly results briefings and Q&A sessions with management available on their company websites.

Micro-Mechanics, Qian Hu and SPH have also started to post minutes of their annual general meetings (AGMs) on company websites so that shareholders who missed the AGMs can refer to them.

Mr Chow of Micro-Mechanics notes that being comprehensive in offering information to investors helps the group avoid selective disclosure during meetings with analysts and fund managers.

Qian Hu, a repeat winner for Best Investor Relations Award, won Gold this year under the small-cap category while SPH landed a Bronze under the large-cap category.

“SPI sees IR as a two-way tool, and seeks feedback from investors,” says SPI chief financial officer Tony Malek. “Insights garnered from them are taken seriously and where appropriate and applicable, action follows.”

The IR team at SPH monitors its corporate governance practices by benchmarking against peers and best practices set out by the GTI, and tracks analyst views and shareholding trends to assess its IR efforts.

“Good IR practices foster better stakeholder relations, strengthen corporate governance and go beyond mandatory rules and regulations to engage and provide the investment community with the access to corporate information in a non-selective manner,” Mr Malek says.