The Eurozone sovereign debt crisis has dragged down the Singapore stock market, so much so that some listed companies in Singapore now have more than half of their market capitalization in cold hard cash. Which are these companies?

What is net cash?

In fundamental analysis, the amount of cash held and generated by a company are one of the more important parameters. This is particularly if a company's cash exceeds its interest-bearing loans. The amount of cash and equivalents on a company's balance sheet, less its loans, is known as "net cash".{loadposition advert1}

For the purpose of looking at the underlying asset value of a stock, it is useful to calculate a stock's "net cash per ordinary share", which is the total net cash divided by the total number of outstanding ordinary shares.

If a company has outstanding preference shares or convertible bonds (even if non-interest bearing), it is prudent to deduct the values of these preference shares or convertible bonds when calculating a company's net cash.

Why is net cash good?

In bad economic times especially, a company’s high net cash (and not just total cash) offers the following advantages

- It acts as a buffer against deleveraging (i.e. if banks attempts to recall loans at short notice)
- It helps insulate the company against rising interest expenses
- It allows the company to sustain dividends and even potentially pay special dividends
- It allows the company to take advantage of M&A opportunities that may arise

There are very few downsides to a company holding excessive levels of cash, the most important of which is that it depresses a company's return on equity. Cash equivalents would also arguably earn a much higher rate of return if they are actively invested, instead of being kept as bank deposits.

Exceptions

In unearthing cash-rich companies, we have excluded companies with large cash holdings that would not be sustainable or does not give a true picture of a company’s financial health, i.e. companies which

- have correspondingly large amount of outstanding loans, preference shares or convertible bonds (e.g. Hyflux) or
- have large committed Capex (e.g. Teck Wah – 17.8c net cash per share) or
- are loss making (e.g. Creative – S$2.36 net cash per share)

Also filtered out are S-chips, in which the market’s confidence is generally low. As a result of questionable balance sheets afflicting a few S-chips in the past 3 years, the market has extended doubt to the rest of the S-chips, so much so that some S-chips are even trading below their net cash value per share. These stocks are therefore excluded.

The money list

The following list comprises companies which have net cash holdings worth more than 50% of their market values. Meiban and Spindex are manufacturing companies. PEC and Hiap Seng are EPC (Engineering, Procurement & Construction) firms serving the oil industry, while Advanced Holdings is an industrial equipment company. Not surprisingly, these companies have low market capitalizations of less than S$200m. The shares of the 2 companies with the lowest market cap are also very thinly traded.

	Share price ($) *	Shares (mil)	Market Cap ($m)	Cash ($m)	Loans ($m)	Net Cash ($m)	Net cash per share ($)	Net cash as % of mkt cap	P/E (TTM) #	Di y
PEC	0.655	255.2	167.2	156.3	0.1	156.2	0.61	93.4%	5.2x	
Advanced Holdings	0.118	310.6	36.7	32.7	2.6	30.2	0.10	82.3%	13.9x	
Spindex	0.25	115.4	28.9	18.5	1.4	17.1	0.15	59.2%	7.7x	
Hiap Seng	0.31	303.8	94.2	51.5	1.3	50.2	0.17	53.3%	24.0x	
Meiban	0.33	321.0	105.9	59.4	4.4	55.0	0.17	52.0%	9.8x	

Notes: (*) Share price as of 20 Dec 2011 (#) Source: Bloomberg

Summary and conclusion

Stock prices have been battered in the last 6 months. The receding tide of funds from equity markets has exposed the above companies which are holding on thier balance sheets net cash exceeding 50% of their market value as of 20 Dec 2011. Moreover, these companies are profitable and have been paying regular dividends.{loadposition advert1}

Of course, a high net cash backing per share does not necessarily imply that a particular stock is under-valued, since investors are usually forward-looking and value shares based on future earning potential. Indeed, nearly all of the above 5 companies provided less than optimistic guidance on outlook in their latest financial reports, with margin pressures and the economic uncertainty in Europe commonly cited. This would explain the current share prices of these companies. Yet, it is safe to say that their high cash buffers should help these companies weather challenging market conditions better than most of their peers, and provide support to their share prices in the medium term.

The above list is by no means exhaustive. Do leave your comments if you know of other companies that also fit the criteria.

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Keywords: PEC, Advanced Holdings, Spindex Industries, Hiap Seng Engineering, Meiban Group