Results analysis: Schroder Oriental Income

SOI has navigated Asia's volatility, and is on its way to dividend hero status...

Update
23 May 2025

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- **Schroder Oriental Income (SOI) has released its interim results for the six months ending 28/02/2025. Over the period, the trust saw a NAV total return of 2.5%, compared to a return of 10.4% for the trust's benchmark, the MSCI AC Pacific ex Japan Index. The AIC Asia Pacific Equity Income sector delivered a weighted average return of 4.8% over the same period.**

- **Whilst SOI delivered positive absolute returns, relative performance was predominantly affected by manager Richard Sennitt's underweight allocation to China, which rallied strongly on the back of the announcement of stimulus measures. The underweight is due to the country having limited income opportunities, plus Richard's ongoing concern over governance. Despite this, he narrowed his China underweight in the year by adding to some of the country's highest-quality names in the periods of market weakness.**

- **To offset the China risk, Richard is overweight Hong Kong which was a positive contributor to performance. Similarly, stock selection in the tech sector, particularly in Taiwan aided performance, as did the overweight allocations to both Singapore and the financials sector. The manager also added to Hong Kong in the period, as well as initiating an off-benchmark position in Indian company Power Grid.**

- **Whilst near-term relative performance was challenging, long-term returns remain strong, with a five-year return more than double that of the index at 53.1% versus 25.3% to the end of the 2025 financial year. Since then, the region has been hit by tariff-induced volatility. As at time of writing (19/05/2025), SOI has delivered positive absolute returns across this period and was several percentage points ahead of the benchmark.**

- **Revenue in the period was down slightly versus the same period last year, albeit just by 1.3%. SOI typically pays three equal interims plus a final dividend, which is often increased each year. In the period, the first two declared dividends of 2p per share remain in line with 2024, and should the final dividend be raised again, SOI will achieve AIC's dividend hero status. The trust has reserves equivalent to 10.19p per share (after the payment of the first interim), which the board has indicated they are willing to use in order to achieve 20 years of continuous dividend growth.**

- **The share price outperformed the NAV in the period, having risen 4.9%. This has led to the discount narrowing to 5.1% by the period end, aided by considerable share buybacks.**

- **Gearing averaged c. 5.5% across the period, which contributed a small net positive to performance despite elevated financing costs on the trust's one-year RCF.**

- **New chairman, Nick Winsor, reflected on navigating the region's challenges, stating: "Our strategy of investing in income producing companies with strong balance sheets that can successfully navigate these challenges has never felt more relevant."**

Kepler View

Schroder Oriental Income (SOI) has a very strong long-term track record, with manager Richard Sennit having delivered strong cumulative outperformance of the benchmark over the long-term. Whilst there have been numerous periods of great performance, the short-term one covered by these results is one of underperformance. However, considering two of the key factors in the period were a rally in China, SOI's key underweight allocation, and a return to growth outperforming value, a major headwind for income-focussed vehicles, we believe that SOI positive absolute returns should be viewed fairly favourably by investors. This is especially true when considering the share price return has outperformed NAV, meaning existing shareholders will have benefitted from the discount narrowing in the period. Furthermore, performance post period end has been strong, with the trust having navigated the volatility post-Liberation day well.

Also within these results is a strong indication that the board wishes to extend its impressive dividend growth track record to 20 years, and therefore achieve the AIC's 'dividend hero' status. Should it do so, it will be the first Asian focussed trust to achieve the feat. Whilst revenue generation is down slightly in the period, the sizeable reserves the trust has built up over the years should be very supportive for the final dividend to increase, in our opinion, although this is not guaranteed.

Another interesting change in the period, in our view, relates to the peer group. In the past few months, a number of peers have adopted some form of enhanced dividend strategy, leaving SOI as the only trust in the sector producing a 'natural' income. As such, the trust's portfolio profile is likely to diverge from peers going forward, as Richard maintains a valuation-discipline that will be important for generating income. Subsequently, SOI now stands alone in the peer group as what investors may expect as a more traditional equity income vehicle. We believe this means the trust could offer important portfolio diversification characteristics going forward.

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