ASIAN INVESTING Summit

*Fully online investment conference, hosted by MOI Global, April 8-9, 2014*

# Selected Session Highlights from Asian Investing Summit 2014

## JEAN-MARIE EVEILLARD, SENIOR ADVISER, FIRST EAGLE INVESTMENT MANAGEMENT

Some quotables from the Q&A session:

- "There is a reason for caution, [but] at the same time…in spite of the fact that markets have gone up considerably over the past five years…there is no major market I can think of where there are not at least some investment opportunities."
- "Apropos the South Korean stock market, Buffett is right, it's one of the markets that still provides considerable opportunities…I like the idea of Korean preferred stocks, in particular."
- "Tokyo [stock market] today, yes it's up a lot, but…it's down more than 50% from where it was 25 years ago…so, it's still a market that's deeply depressed."
- "From a very long term point of view, India would have my preference over China."
- "Over the past few weeks, the Russian stocks went down so much, and the ruble had come down so much that, hey, there is a price for everything! So, maybe there is merit to owning a few Russian stocks today."
- "When I look back at the past half century, I was helped more by what I did not own than what I did own: I owned nothing in Japan in the late 1980s. I owned nothing in the technology, media and telecom stocks in the late 1990s. I owned nothing in financial stocks at the beginning of this century."
- "Bitcoin is a joke, and not a very good joke. While gold is real, it's been money for a couple of thousand years. Although Bitcoin may be an indication that a number of people are not very happy with the current system."

## ROSHAN PADAMADAN, FUND MANAGER, LUMINANCE GLOBAL FUND

**CAN-ONE** (Malaysia: CAN): Special situation with an imminent catalyst for value recognition. In addition to having an operating business, Can-One owns a stake in competitor Kian Joo Can (Malaysia: KJC), with the stake worth US$146 million – equivalent to Can-One's recent market value. As KJC is selling itself, Can-One and other KJC shareholders will get cash for their stakes. Can-One shareholders therefore get the valuable Can-One operating business for free. Can-One manufactures tin cans (~25% of profits), produces condensed milk (~45 of profits) and has property-related activities (~30% of profits). Can-One's controlling family led by Yeoh Jin Hoe (66) has proven to be shrewd capital allocators and may return some of the cash to be received from its KJC stake to shareholders.

## Sid Choraria, Managing Partner, Marwar

**NESCO** (India: NSE): Significantly mispriced stock with investors getting a $50+ million cash pile and 70-acre land plot – near the Mumbai airport and likely worth ~2x recent market value – for free. The land was acquired in the late 1950s and is recorded at acquisition cost of US$1 million. Supporting the valuation is the core exhibition and IT park business, a wide-moat business with 75%+ EBIT margins and multiple growth catalysts. Insiders eat their own cooking and are good capital allocators. Nesco is underfollowed by most investors despite its transformation and recent improvements (exhibition and leasing capacity growth, margin expansion, cash pile increasing every year, dividends increasing every year). Screening databases like Bloomberg show incorrect P/E and P/B multiples.

## Peter Kennan, Chief Investment Officer, Black Crane Capital

**ELDERS – HYBRIDS** (Australia: ELDPA): Hybrids are the fulcrum security in what remains a distressed common equity (Australia: ELD) at Elders Limited, Australia's oldest rural services business. Both Elder's common and hybrids suffered significant declines in value as the company embarked on a disastrous diversification into forestry and five years of workout followed. Now, the hybrids are trading at A$21 versus face value of A$100. Face value of the hybrids is A$150 million relative to current ordinary market cap of A$50 million. Senior debt is not trading but is not impaired and any equity value upside goes first to the hybrids. Hybrids need to be converted to allow company to raise new equity. While additional equity capital is ideally required, there is very low likelihood of aggressive action by creditors and light at the end of the tunnel: forestry exit completed, other non core business sold, seasonal conditions improving, cost reductions are ongoing.

## James Choa, Managing Director, Valiant Ocean Capital

**TIME WATCH INVESTMENTS** (Hong Kong: 2033): Established in 1988, Time Watch is the leading manufacturer, brand owner, and retailer of watches in China. Current price is below the HK$1.23 per share Orchid paid to become the cornerstone investor. Insiders have been actively buying the stock in the market recently. Cash on hand is about 30% of market cap with almost no debt. Attractive valuation at EV/EBIT of <5x, P/E of 8x, P/B of 1.6x and a 5% dividend yield (not including the HK0.02 interim dividend declared but not paid). Founder and controlling shareholder (68%) Michael Tung has been in the watch business since 1980 and has successfully built the Tian Wang brand.

## Ori Eyal, Portfolio Manager, Emerging Value Capital Management

**KOREAN PREFERREDS**: Thesis: 60% price discount PLUS 2% dividend yield PLUS improving corporate governance PLUS bargain hunting foreign investors EQUALS a triple in 5 years. Execution: Invest in a basket of 20 carefully selected (invest only in good businesses that are profitable and pay dividends) Korean preferred shares which are materially equivalent to common shares, but trade at a 60% discount and offer 2%+ dividend yields. Risk of permanent capital loss is minimized since investing in a diversified basket of cheap, profitable, dividend paying stocks. Korean preferreds were originally issued several decades ago when the government pressured chaebols to raise more equity and delever their capital structures. The chaebols wanted the extra equity capital, but they also wanted to retain control of their companies — hence the new non-voting shares. Today, 100+ public companies in South Korea have listed common and preferreds. Most preferred shares in Korea currently trade at a 50-70% price discount to their respective common shares. Since they must pay a higher absolute dividend amount, dividend yields are much higher and usually range between 2-5%.

## Chan Lee and Albert Yong, Managing Partners, Petra Capital Management

**NEXEN** – HOLDCO and PREFERREDS (Korea: 005720 and Korea:002355): Established in 1958, Nexen manufactures automobile tires and is currently one of the fastest growing tire manufacturers in the world – a “hidden” champion from Korea with superior cost competitiveness via state-of-art manufacturing facilities and a skilled labor force. While common shares (Korea: 002350) are attractive in themselves, the unique features of the Korean equity market offer two alternative – and superior – ways to invest in Nexen: 1) Holding company (Korea: 005720): Nexen Corp., the HoldCo, owns 40.8% of Nexen Tire plus other subsidiaries. Equity stake in Nexen Tire represents ~70% of the Holdco’s value. The HoldCo shares trade at an estimated 55% discount to the value of its parts, including Nexen Tire at market value; 2) Preferred stock (Korea:002355): Many Korean preferred stocks trade at about 60% discount to the equivalent common stocks. While preferred stocks have no voting rights, they confer the same economic benefits as common stocks. Nexen preferreds currently trade at a ~60% discount to the common.

## Isaac Schwartz, Portfolio Manager, Robotti & Company Advisors

**HALYK SAVINGS BANK** (London Int'l: HSBK): Dominant consumer bank in Kazakhstan, a wealthy and growing country. Shares are listed in London and trade in US$ (recent market cap: US$2.3 billion). Cyclical depression has masked secular growth. Currently valued at 1.0x book, with >20% current and sustainable return on equity. Stock is worth 2x book value, which implies 100% upside from the current share price.

## ALI AKAY, CHIEF INVESTMENT OFFICER, CARRHAE CAPITAL

**CHINA INTERNATIONAL TRAVEL SERVICE** (China: 601888): Operates Duty Free stores across China (>95% of profits) and is also China's largest domestic travel agency (<5% of profits). A key beneficiary of secular growth in Chinese travel and leisure spending, with potential to see a step change in revenue from new projects (Haitang Bay project; mainland downtown stores). Share price upside estimated at ~30% in a base case scenario and ~90% in an optimistic scenario. The company fits well with what Carrhae looks for in emerging markets businesses: 1) secular over cyclical growth; 2) government support; 3) natural monopolies; 4) demographic / macroeconomic tailwinds.

## JOSHUA KENNEDY, MANAGING PARTNER, SONIAN CAPITAL

## BENJAMIN KOH, FOUNDER AND PORTFOLIO MANAGER, LIGHTHOUSE ADVISORS

*The following idea was presented independently by both Josh Kennedy and Benjamin Koh.*

**GREATVIEW ASEPTIC PACKAGING** (Hong Kong: 468): Chinese-based manufacturer of aseptic packaging material threatening to break the decades-old TetraPak monopoly worldwide (having already succeeded in China). Certain unique success factors enabled Greatview to become a formidable competitor to TetraPak in China: 1) a market for aseptic packaging to arise where even small share meant large scale; 2) a cost advantage such that predatory pricing was less effective; 3) trade regulators intolerant of a foreign company dominating an important consumer category; 4) dairy customers willing to take a chance on a Chinese second supplier. Furthermore, the management (previously the senior management team of Tetra Pak in China) had the necessary technical expertise. With the Chinese dairy market growing 5-10% p.a., Greatview likely to capture unfair share of the incremental demand (Greatviews' current market share in China is ~15% versus TetraPak's ~70%). Given the growth prospects and high entry barriers, valuation at 15x trailing earnings (12.5x 2014 estimates) is attractive for this compounder.

## MAX HU, PORTFOLIO MANAGER, TEMPUS CAPITAL

**LI NING** (Hong Kong: 2331): Turnaround opportunity in the leading Chinese sportswear company, a fallen angel: share price declined from HKD30 in 2010 to HKD5 currently. Founded by former high profile Chinese Olympic gymnast in 1990; public since 2004. Large shareholders include Mr. Li (Viva China Holdings, 30.5%) and TPG Asia Advisors (18%). Competitive environment is tough, but not hopeless: Li Ning is still the most recognized domestic brand in China and focuses on competing in mid-end markets against Anta (Hong Kong: 2020), with some limited editions to compete against Adidas and Nike at the high end. Overly ambitious expansion (stores increased from 2,644 in 2004 to 8,255 in 2011) caused huge inventory problems. Today, Li Ning operates ~35% of stores with ~65% operated by third parties. With TPG taking control, Li Ning announced in 2012 its three steps, four years turnaround plan: 1) re-focus on its core sportswear products, exiting causal wear business; 2) regain control of sales channel and shorten the product cycles; 3) improve consumer experiences, including building an online presence. Current valuation at P/S of 0.9x assumes some success in turning around margins, but remains low relative to a full turnaround and sustained growth prospects.

## SENG CHONG YEO, CHIEF INVESTMENT OFFICER, YEOMAN CAPITAL MANAGEMENT

**TAN CHONG INTERNATIONAL** (Hong Kong: 693): Operates in heavy commercial and motor vehicle distribution, industrial equipment distribution, property rental and development in Asia. Attractive valuation at a P/E of 2.8x (or 6.5x excluding property revaluation gains) and P/B of 0.6x (ROE is 23% or 8.5% excluding revaluation gains). Dividend yield is 3%+, paid twice a year. It has paid dividends every year since listing in 1998. No losses over listing history. Modest directors' remuneration. Balance sheet unimpaired over listing history and has grown book value steadily over the years. No "di-worse-sification" and no dilutive share issues. Insider ownership is 75%.

**WILLAS-ARRAY ELECTRONICS HOLDINGS** (Singapore: WAE): Trades electronic components in Greater China. Attractive valuation at a P/E of 6.9x and P/B of 0.6x (ROE is 8.5%). Dividend yield is 7%+, paid every year since listing except in 2009. It has paid dividends every year since listing in 1998. No losses over listing history. Balance sheet condition reasonably maintained over listing history and grew book value over time. Management growing the business prudently, no di-worse-sification and only one year of reported losses in entire history (listed in 2001). No dilutive issues. Insider ownership is 42%.

## KOON BOON KEE, MANAGING EDITOR, THE MOAT REPORT ASIA

**SINMAG EQUIPMENT** (Taiwan: 1580): "The Middleby (MIDD) of Asia", Taiwanese-listed Sinmag has a dominant share in bakery equipment and other food service equipment in Asia (in China: 80%+ share in hypermarkets, 50% in chain outlets, 30% in 4- to 5-star hotels; in Taiwan: an overall 30% share). Yet, no customer accounts for more than 5% of revenue. The founders of this family business have demonstrated clear dedication in building up the company with its wide-moat business model backed by a strong distribution/marketing network. Sinmag is currently trading at an attractive mid-teens trailing P/E (EV/EBIT: ~10x) with opportunities to compound capital at attractive rates given the long runway of growth, including further consolidation opportunities across Asia. Based on PE, P/CFO and EV/EBIT, the shares are trading at a 40-50% discount to Western-listed comparables despite more efficient use of assets in generating profits and cash flow. The 4% dividend yield is supported by strong cash flow generation, a net cash balance sheet and a steady revenue stream.