Selected Session Highlights from Asian Investing Summit 2015

PETER KENNAN, CHIEF INVESTMENT OFFICER, BLACK CRANE CAPITAL

EMECO (Australia: EHL) is the largest mining equipment rental company in the world, formed in Western Australia in 1972 as a family-owned business. It was acquired by a syndicate of private equity investors in 2005 and then floated on the ASX in 2007. Emeco's business is focused on the major mining houses and increasingly it is working in partnership with the major Caterpillar distributors to service the equipment needs of the world's major mining houses. In October 2013, Emeco issued a US$355m 144A bond with a 5 year term. The net proceeds were from the bond were used to repay existing facilities. Emeco also has a A$75m asset backed facility which is currently un-drawn. The notes do not include maintenance covenants, the asset backed facility has the following covenants (if drawn above a specified level): liquidity ratio (net debt to net tangible assets of no greater than 65%), interest cover ratio (operating EBITDA to interest expense of no less than 2.25 times).

Investment thesis: The downside is protected by asset values and liquidity of the assets. Strong free cash flow is available if capital expenditures are curtailed. Equipment depreciation rate and disciplined supply of new equipment result in relatively quick re-balancing of supply and demand. Improving utilization drives earnings growth. Surplus cash may be utilized to buy back bonds and equity. Stock trading at 10-12¢ versus net assets backing of 47.5¢.

Where did it go wrong? Management change post investment by Black Crane Capital. Utilization was restored but at the cost of margins. Cost control and reduction have not the number one priority when they should have been. Management is pursuing a large, diversifying acquisition (Rentco) at the wrong time and wrong price (8-10x EBIT). The acquisition uses most of the surplus cash and also includes substantial issuance of shares. Black Crane is pursuing an activist campaign to stop the acquisition and change the Board. Emeco needs to refocus on capital management and potential industry consolidation. A public letter to the Chairman clearly outlines opposition to the acquisition. The letter is jointly signed by Black Crane and one other shareholder with a combined stake of 24%.

SID CHORARIA, INVESTMENT MANAGER, APS ASSET MANAGEMENT

SHENZHEN INTERNATIONAL (Hong Kong: 152): Multiple ways to win in current environment. Toll roads is recurring FCF business with attractive IRR in low-rate environment. Logistic parks offers growth tailwind due to demand. 49% stake in domestic airlines benefits from low fuel prices and tourism. Asset value and catalysts present, yet trades at 10x P/E, not valuing growth.

Toll roads business is recurring FCF-generative business with attractive IRR in current low-rate environment.

- Toll road operations span Shenzhen region, Guandong Province and other provinces through investments in Longda, Wuhuang and Shenzhen Expressways. Long-term concession rights, average of nearly 14 years remaining

- Significant recurring FCF generation and attractive IRR in low interest rate environment. Future maintenance capex is minimal and management deploying excess cash flow into high growth logistic parks business
- In 2014, Meiguan Expressway adjustment agreement contributed one-off gain of HK$730mm to net profit to shareholders
- Stable revenue stream and catalysts, include increasing traffic volume, toll revenue, urbanization and auto ownership

Logistic parks has long growth tailwind witnessing strong demand from e-commerce, warehouse and delivery companies.

- Existing 6 logistic parks witnessing strong demand from e-commerce, warehouse and 3PL companies in China. High occupancy rates of 96% with increased economies of scale and consistent margin expansion over the last 5 years
- Upcoming integrated urban logistics hub with planned site area of 2.55mm sq ft, provides long tailwind of growth due to strong demand, shortage of supply, strong SOE background, government policy and proven operational expertise
- Shenzhen Qianhai land asset value recorded at cost, conservatively worth multiples higher

Other financial investments include 49% stake in Shenzhen Airlines benefits from low fuel prices and booming tourism. Stake disposal of CSG shares highlight shareholder-oriented management and focus on logistics growth.

- 49% stake in associate, Shenzhen Airlines benefits from low fuel prices and tourism.
- CSG share disposals over last few years demonstrate focus on logistics growth and shareholder-oriented management

JIRO YASU, REPRESENTATIVE DIRECTOR, VARECS PARTNERS

EM SYSTEMS (Tokyo: 4820):

- Largest software provider for dispensing pharmacies in Japan, 30% market share. EM entered clinic software market in 2011. EM has a large office building in Shin-Osaka.
- EM's building in Osaka could worth 66% to 100% of EM's market cap.
- EM's core business is a high-quality business and should be valued higher multiple.
- EM has been gaining market share by acquiring smaller competitors.
- Clinic software business has not been profitable. We expect the loss will get smaller in the coming years.

Separately, Jiro Yasu presented an update on the Japanese animation industry.

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

Amid recent positive regulatory changes and new active demands from minority shareholders, Korean companies may be finally changing course to become more shareholder-friendly. Chan Lee and Albert Yong have been looking for Korean companies that are likely to improve capital allocation policy and return money to shareholders, which will unlock the shareholder value. They present two ideas:

GS HOME SHOPPING (Korea: 028150):

- *Strong operation:* The company is Korea's leading TV home shopping channel. The company possesses a strong brand and maintains superior bargaining power over merchants. The company can benefit from growth opportunities in mobile and international.
- *Cash:* The company holds excess cash equivalent to 60% of its market cap. The home shopping business requires little incremental investments to grow. The company can deliver tremendous potential returns with capital allocation improvements; in 2014, the company increased dividend by 120% from 2013.
- *Attractive valuation:* The company fell into undervalued territory in 2014 after the stock price dropped steeply due to a series of bad news. The company offers a high margin of safety as it boasts a strong balance sheet with no debt. The market cap is extremely cheap compared to its intrinsic value.

KOREA ALCOHOL INDUSTRIAL (Korea: 017890):

- *Strong market position:* The company is one of Korea's leading manufacturers of specialty chemicals, including ethyl alcohol and ethyl acetate. Despite the recent slump of the chemical industry, the company has maintained a steady income thanks to its market dominant position in the oligopolistic industry.
- *Non-core assets:* The company owns the controlling equity stake of ENF Technology (a publicly traded company), a manufacturer of process chemicals used in making semiconductors and TFT-LCD displays. The value of the company's real estate property is worth nearly 50% of the market cap. The company can improve the shareholder value by selling off its real estate property and returning cash to shareholders.
- *Attractive valuation:* The company is a good example of holdco discount opportunities in Korea. The value of non-core assets is not properly reflected in the stock price of the company. The company's liquidation value far exceeds its market cap.

Ori Eyal, Portfolio Manager, Emerging Value Capital Management

Why invest in Israel: (i) stable, capitalist, pro-business, pro-investors, free-market democracy; (ii) healthy, growing economy; (iii) human capital and innovation; (iv) natural resource discoveries; (v) wealth of investment opportunities; (vi) long-term stock market outperformance; (vii) cheap stocks.

GOLF & CO (Israel: GOLF) — retail turnaround:

- *Leading group of retail chain stores,* all under the umbrella brand "Golf & Co". Main categories: fashion clothing and home accessories. 330 stores today across all brands (198 stores: fashion clothing, 132 stores: Home accessories).
- *Profitable retail chain* with multiple competitive advantages: well-recognized brand; economies of scale in operations, distribution, advertising, and purchasing; excellent mall-based locations locked up.
- *Operational issues in past few years:* decline in operating margins; loss-making chain "Blue Bird" will be fixed or shrunk; currently losing about 10 million ILS per year; underinvestment in store base; did not keep up with competition.
- *New CEO* – Mizroch Eliezer: consulting background; experienced in business strategy and business development; implementing new strategic plan.
- *Valuation:* Value of business: 648 million ILS (8x operating income); add net cash: 150 million ILS; total fair value in 2018: 798 million ILS; recent market cap: 427 million ILS; upside to fair value: 87%; collect 8% dividend yield while we wait.

ISRAEL DISCOUNT BANK (Israel: DSCT) — hidden value to be unlocked:

- *#3 bank in Israel:* incorporated in 1935; 218 branches; major business lines: retail banking, corporate banking, financial management, capital markets and private banking;
- *Operationally the least efficient bank in Israel:* current ROE = 7%; working to increase sustainable ROE. New CEO Lilach Topilsky started in 1Q14; previously led operational turnaround at Bank Hapoalim; announced multi-year strategic turnaround plan.
- *Looking to unlock value by selling assets:* Discount Bank New York (100%); Mercantile Bank (100%) – focus on Arab and Haredi sectors; Visa Cal (72%).
- *Sum of parts valuation (right now):* IDB-NY: 2.8 billion ILS (book value); Visa Cal: 1.5 billion ILS (72% stake, 15x net income); core IDB bank: 7.7 billion (0.8x 9.6 billion core book value); total: 12 billion ILS (64% upside).
- *Possible value in two years:* assumes no asset sales; book vale increases 14% (7% per year); ROE goes from 7% to 9%; P/B goes from 0.55x to 0.9x; 87% upside.

Isaac Schwartz, Portfolio Manager, Robotti & Company

BAUHAUS INTERNATIONAL HOLDINGS (Hong Kong: 483) is an exceptionally well-run specialty retailer and apparel design business, whose shares are extremely undervalued. For the last thirty years, Bauhaus has been focused on bringing fashion forward trends to Hong Kongers. For the last fifteen years, Bauhaus has focused on bringing those lifestyle products, with an especial focus on denim and hybrid work/going out apparel, to consumers across Greater China, including Taiwan and Mainland China. The stock sells for 9x PE, a 5.1% yield, and has net cash.

JOSHUA KENNEDY, MANAGING PARTNER, SONIAN CAPITAL

BOUSTEAD SINGAPORE (Singapore: F9D) is a small-cap industrial conglomerate with an asset-light business model cobbled together over the last twenty years by a brilliant CEO, Mr. Wong Fong Fui, who would be right at home in William Thorndike's recent book on CEO capital allocation, *The Outsiders*. It is an outstanding company at an attractive price, but the discussion will be timely because the company has announced plans to spin off its industrial real estate business in 2015.

CARTER VENKAT, PARTNER, INOX GLOBAL CAPITAL MANAGEMENT

SUN ART RETAIL (HKSE: 6808) is a leading operator of hypermarkets in mainland China with 14% market share. The company trades at a FCF yield of 5.9% and is growing its store count in the relatively underpenetrated Chinese market by approximately 15% per year. While pre-tax ROIC has been declining, it is still a relatively healthy 32%. The company has been hurt by flat same-store-sales and investors are fearful about Chinese consumer spending as well as competition from online players. As a result, the stock has more than halved from its November 2014 high of HK$12.64 to the current price of HK$6.08 and the P/E ratio has decreased from 37.7x in March 2013 to the current 16.6x. However, unlike many Chinese retailers, the company has maintained its margins and has managed inventory levels well. They have a clean balance sheet with a net cash position and are funding expansion from internally generated cash. There remains significant scope for expansion especially in the lower-tier cities that Sun Art is currently focusing on. While these stores take longer to ramp up and have lower productivity levels, returns on investment are still compelling. Although we think retailers in China will face a more challenging future, due to slowing economic growth, increased capacity, and various other factors, Sun Art's shares offer a compelling valuation for a leading, well-operated Chinese retailer.

KRISHNARAJ (KIMI) VENKATARAMAN, MANAGING PARTNER, KIMI & PARTNERS

THE GREAT EASTERN SHIPPING COMPANY LIMITED (GE SHIPPING) (India BSE: 500620, India NSE: GESHIP) provides offshore oil and gas and shipping assets on hire, while also trading in them. Shares are available at around 1.8 to 2 times annual operating cash flow after interest payments plus cash on hand. The company's large asset purchases to build an offshore business have just been completed. This was seeded from the gains made by the shipping business in the boom, which lasted until 2008. The offshore business is steadier than the shipping business. It now brings in 2/3rds of the cash, having grown seven-fold in cash earnings over the past five years. With all offshore assets now put to use, the firm is likely to generate significant free cash flow. Kimi Venkataraman values the company 60+% over the recent market price (30-day average of ₹ 351.7) even while applying adverse assumptions and with an adequate margin of safety.

Max Hu, Portfolio Manager, Tempus Capital

JD.COM (Nasdaq: JD): A leading Chinese E-commerce company growing its revenue rapidly at 100%. We simply believe that this is a great business on track to dominate its sector and to become one of the largest company in the world. The business has very wide moats and the moat is widening, built from its past ten years of hard work and dedication to customers. We believe the business will further take market shares from its larger and smaller competitors as it did in the past. Furthermore, we believe the business is at infection point at which its profitability will explode within next two or three years. While this investment idea may not suit traditional deep value investors, it worth serious consideration for any long-term GARP investor.

Scott Phillips, Head of Research, Templeton and Phillips Capital Management

WH GROUP (Hong Kong: 288) represents the combination of Shuanghui Development of China and Smithfield Foods in the U.S. WH Group is the world's largest processor of pork meat, with operations and sales focused on China (43% sales) and the U.S. (50% sales). Despite its backdrop for secular growth opportunities in China, the firm's valuation multiples are heavily discounted versus its global peers. WH Group is a holding company representing the 2013 combination of Shuanghui Development of China and Smithfield Foods in the U.S., rather than capitalizing potential synergies, the market implies a reduced valuation for Smithfield from its takeover (and pre-merger) value. In sum, an attractive long-term growth business with compelling value-creation opportunities on a bottom-up basis.

KB Kee, Managing Editor, The Moat Report Asia

RECHI PRECISION (Taiwan: 4532), trading at P/B of 1.6x, EV/EBITDA 7.2x, EV/EBIT 10.6x, dividend yield 6.37%, is the world's #4 compressor manufacturer with 10% market share, up from 3.5% in 2000. Regionally, Rechi has 39% in Taiwan, 30% in North America, 3% in China, 12% in Europe, 9% in Japan, 13% in South America, 14% in ASEAN. Rechi also has niche dominance in compressor for the recreational vehicle (RV) market in North America with 60% market share and over 90% market share in heat-pump dryer in Europe in partnership with Bosch. Despite being not profitable for as long as the first ten years since it was established in 1989 due to the lack of production scale, Rechi persisted in pursuing the aspiration of achieving technical independence in the heart of the air-conditioner technology – the compressor – under the leadership of its chairman CHEN Sheng-tien who is also the chairman of parent Sampo Corp who owns a 25.4% stake in Rechi. Led by Chen and CEO Liu Jin-hsi, Rechi showed grit and determination in breaking past the milestone of an accumulative 100m units in 2014 and has plans to produce and sell another 100m units by 2020/21. We think the perseverance and focus is rare in Asian firms and this has attracted other strategic shareholders that include Taiwan steel giant China Steel Corp (2002 TT) with 4.91% stake and Japan's electronics giant Sharp (6753 JP) 4.86%. Rechi's open innovation business model to co-develop new products has also forged long-term partnerships that include BLDC motor (China Steel Corp, Sanyo-Panasonic), air purifier (Sharp), heat-pump dryer (Bosch). We think this is rare in Asian firms and Rechi deserves a valuation premium.

Amitabh Singhi, Managing Director, Surefin Investments

The following are three ideas highlighted by Amitabh Singhi during the session:

- **Aro Granite Industries** (India: AROGRANITE), a granite processor based an hour from Bangalore. It has a processing capacity of over one million square meters a year. It buys granite from Asian quarries and cuts it up into tiles or slabs. It's a simple business. The ten-year ROEs before the U.S. recession in 2008 were 20+%; the last seven years, the ROE has been ~10%. They actually never lost money. The U.S. was their largest customer, and they had tripled capacity in 2007 to cater to U.S. residential demand. If you go to an American home and you see a granite kitchen top, most probably it's from Aro's factory. Aro is the largest exporter of Indian granite.
- **TATA Motors DVR** (India: TATAMTRDVR), a divisional voting right
- **Tata Investment Corp.** (India: TATAINVEST), a Tata-related investment holding company, including stakes in Tata Motors, Titan (jewelry, watch, and spectacles company), Tata Chai (tea company), Tata DOCOMO (telecom company), Tata Power (power and utilities business), TCS (information systems and outsourcing), Tata Hotels, and other assets.

Jean-Marie Eveillard, Senior Adviser, First Eagle Funds

The following are selected quotations from the Q&A session with Jean-Marie Eveillard:

- "Today, I'm particularly intrigued by the Tokyo stock market where it seems to me that the government has taken steps."
- "China reminds me a little bit of India in the early 1990s…"
- "I have two problems with India today… The stock market is expensive, although not like Tokyo in 1988 and 1989. I'm sure there are opportunities here and there, but overall the stock market is very expensive…"
- "In Asia, I'm intrigued by the Philippines and by Indonesia. Again, it seems to me that steps have been taken there in both countries. The consequences for investors in equities could be quite positive."
- "One should keep an eye on a country like Brazil, because sometimes you have a combination of stock markets going down and the currency going down. At some point, it creates opportunities… That's true of Australia as well. There are a number of countries involved in commodities."
- "I love the [Korean] preferreds…"

Amit Wadhwaney, Former Lead PM – International, Third Avenue Management

The following are selected quotations from the Q&A session with Amit Wadhwaney:

- "Asia is not one big ball of wax. It's a very heterogeneous collection of countries and markets."

- "Japan is making its own tottering attempts at a comeback and deep down I am mildly optimistic. I think some degree of shock therapy has been administered."
- "India's got a lot of promise, a lot of traction. Lots of people got interested in it. For the first time in a number of years, actually decades, there seems to be hope for a change. The problem here is the following: how much change and how quickly."
- "…in each market there's a distribution of companies of how they run their businesses in terms of governance, behavior."
- Two ideas: "One is **Guoco Group** (Hong Kong: 53) and the other is **Strait's Trading** (Singapore: STRTR). One is subject to Hong Kong rules; the other is subject to Singapore rules, which are not hugely dissimilar… Both companies are controlled by families."

David O'Neil, Chief Investment Officer, ASEAN Investment Management

Vietnam Domestic Economy Recovery, 2012-2018

Key Propositions:

- The middle class will double by 2020 and great young demographic profile;
- Revival of credit: Annual credit growth of 20-25% from 2016-2018 @ 8-9% lending rates;
- Industrial Production + Exports + Tourism > 10% growth 2013-2018
- Deposit Rates and Lending rates achieve sustained lows 2015-2017
- Increasing monetary and fiscal stimulus 2013-2018

Investment Thesis:

- Residential Real Estate unit prices will double by 2020;
- Residential Real Estate sales volumes will increase by 200-300% from 2013 through 2018;
- Construction volumes will increase by 150-200% from 2013 through 2018; and
- Construction materials - cement and steel volume sales will increase by 150-200% from 2013 through 2018.

Opportunity Set — 30 listed construction and real developers in Vietnam:

- Land bank rich developers who will accelerate conversion of land into saleable developments - at the 2012 cycle bottom this opportunity set traded at 90-95% discounts to NAV or 0.2-0.4x Book Value; currently this discount is 65-75%, implying upside of 200% plus through 2018 (Fair Value 20% discount to NAV - 10-12x sustainable earnings).
- Leading construction firms who are leveraged to the revival in infrastructure deployment and real estate recovery - at the 2012 cycle bottom this opportunity set traded 0.1-0.3x Book Value; currently this valuation is 0.5-1.1x book, implying upside of 200% plus through 2018 (Peer Fair Value multiples in Thailand and Indonesia are >16x Earnings and >3x Book value).