ASIAN INVESTING Summit

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Selected Session Highlights from Asian Investing Summit 2017

Note: The following idea snapshots have been provided by the respective instructors or compiled by The Manual of Ideas using information provided by the instructors. The following is provided for educational purposes only and does not constitute a recommendation to buy or sell any security.

Soumil Zaveri, Partner, DMZ Partners

CAPITAL FIRST (NSE: CAPF) is a non-banking financial company focused on India's underserved ~30 million MSMEs (micro, small & medium enterprises) and consumers. The Warburg Pincus backed company is led by industry veteran V. Vaidyanathan who owns >10% of the business, creating one of the best alignments of interest in this industry. In an erstwhile form the company was a wholesale lender to developers but since its reincarnation in 2012 it has built a formidable retail business spanning MSME and business loans as well as personal and consumer loans. Given the low levels of credit penetration in some of these sectors and the slack in the public banking system, Soumil expects Capital First to grow AUM and revenue ~25% annually over the next five years. As operational costs are spread over a larger business, Soumil expects cost to income to moderate from 51% to ~45%. Given their analytical scorecard-based approach and experience of underwriting 3.5+ million customers, Soumil expects credit costs to moderate over future iterations of this process. This should enable the company to earn and redeploy earnings at an ROE of 16-18% over a long runway. While the company is not necessarily cheap by static measures, even at recent prices Soumil expects patient allocators to compound capital at attractive rates over the long term.

Sidd Mehta, Principal, Beaconsfield Investment Management

SHRIRAM TRANSPORT FINANCE (NSE: SRTRANSFIN) is India's leading second-hand truck financing company. Its founder is a legend in India and has pioneered lending to the poorest in the country over the past forty years, building a wide moat around the business and market share above 50%. The company has faced several headwinds in the past five years. Sidd views the equity as undervalued, as it trades at a discount to the ten-year price-to-book multiple of 2.3x and at a discount to other non-banking finance companies in India. Sidd expects Shriram to compound per-share book value at between 12-15% annually.

Sid Choraria, Investment Manager, APS Asset Management

HAW PAR CORPORATION (SGX: H02) is a deep value stock, with investments, property portfolio value, and net cash combined exceeding the recent market cap. Meanwhile, the company has a strong consumer/healthcare franchise, with growing intrinsic value and value-oriented management. Haw Par has been listed on the Singapore Exchange since 1969, with a rich company history dating back to the 19th century. The core business, Tiger Balm, is available for free, as the value of cash, investments, and real property exceeds market cap. Meanwhile, the core business generates $100+ million in FCF on a normalized basis. Haw Par owns stakes in three public companies: United

Overseas Bank (SGX: U11), UOL Group (SGX: U14), and United Industrial (SGX: U06). Management appears focused on returns on capital. The company has a “blue chip” board, including Lee Suan Yew, the younger brother of the architect of modern Singapore.

Peter Kennan, Managing Partner, Black Crane Capital

WELLARD (ASX: WLD) is the global #1 live cattle exporter. Wellard has 22% market share in the export of live cattle from Australia and 25+% market share in the key customer markets of Vietnam and Indonesia. The group also exports cattle from South America into Europe and the Middle East. The company owns the world’s largest fleet of modern, purpose-built livestock carriers. The company was floated on the ASX in December 2015 at A$1.39 per share. Black Crane has acquired an initial stake in the company for A$0.21 per share. The dramatic decline in the share price was caused by a significant contraction of margins as a result of unprecedented high cattle prices in Australia. These prices have been driven up by extreme climate conditions in Northern Australia; several years of draught followed by abnormally wet and long wet-seasons led to very strong demand for cattle by producers (to re-build their herds, known as re-stocking) who in normal conditions would be selling surplus cattle. FY2016 was also marred by crankshaft failures on two sister vessels in the fleet. As a result of these factors the company’s estimated FY2017 EBITDA is only 25% of the prospectus forecast for 2016 and 36% of that achieved in 2015. Peter’s investment thesis is that typical seasonal conditions will resume and cattle prices will return to normal levels post the end of the current re-stocking cycle. The crankshaft failures are also one-off events. Hence, Peter sees no reason why the company cannot achieve EBITDA in line with its prospectus forecast.

Rahul Saraogi, Managing Director, Atyant Capital Advisors

JUBILANT LIFESCIENCES (India: JOL) is a life sciences and biopharma company and part of the Jubilant Bhartia Group. Jubilant LifeSciences is a diversified business and a misunderstood company. It is a strong player in niche specialties, with strong growth ahead and an undemanding valuation. The future spinoff of the pharmaceuticals business provides a catalyst. The Bhartia Group has been friendly to minority shareholders. Jubilant’s leveraged balance sheet is improving, and the business has high margins and generates high returns on capital. According to Rahul, one-off events de-rated the stock, and an overhang of General Atlantic’s stake is now behind the company. Rahul expects EBITDA to grow to $450 million for the twelve months through March 2019, up from $220 million over the past twelve months, driven by a roughly ~50% increase in revenue. This would have the effect of decreasing the EV/EBITDA multiple from 11.3x to 5.5x, assuming no change in the share price.

Akhil Dhawan, Managing Director, Locus Investment Group

IDFC (India: IDFC) is a financial services company with a ~$1.3 billion market cap and four main businesses: a 53% stake in IDFC Bank (the rest of which was spun off from this company and listed in November 2016), an asset management business in India (mutual funds and alternatives), a retail and institutional broking business, a newly established infrastructure lending platform. IDFC was historically a non-bank financier of infrastructure assets and its erstwhile loan book was shifted to the bank before its spin-off. IDFC Bank started with $13 billion in assets and ~$2 billion in equity and plans to transform into a differentiated, digital-centric bank in India. It has a market cap of ~$3 billion. IDFC's asset management business has $11 billion of total AUM, with $8.5 billion in mutual funds and $2.5 billion in alternatives. Its brokerage business is small but profitable. The overall holding company (IDFC) is exposed to growing businesses in an under-penetrated market and is available for a large discount to the sum of its parts (it currently sells for less than the value its stake in IDFC Bank).

Rashmi Kwatra, Partner, Prince Street Capital Management

BRAC BANK (Bangladesh: BRAC) is the banking affiliate of Bangladesh Rural Agricultural Credit, one of the leading microfinance institutions in Asia. BRAC Bank was established by BRAC to serve the underserved market of small businesses in Bangladesh where traditional banks are focused on large ticket loans, and micro lenders on smaller ticket loans. BRAC Bank currently holds 46% of BKash, Asia's largest and most successful mobile payments platform (comparable to Safaricom's M-Pesa in Kenya), an impressive business in its own right. While Rashmi expects BRAC to eventually dilute its ownership in BKash, she believes this investment is not reflected in the market valuation of the bank; this business alone may be worth more than BRAC Bank’s recent market cap. Mobile payments is a key aspect of financial inclusion, and a direct application of financial technologies to the developing world. Rashmi believes BRAC represents one of the best ways to invest in this theme. At this time, investors pay less than 2x 2017 book value for a bank that is growing earnings at a CAGR of 20+% and should reach 2% ROA in 2019, with the best retail franchise and corporate governance in Bangladesh (these metrics do not include the stake in BKash).

Ada Lau, Fund Manager, Pickers Capital Management

AJISEN CHINA (HK: 538) operates a fast-casual Japanese ramen restaurant chain under the *Ajisen* brand in China and Hong Kong. The business is concentrated in affluent cities, with 650 restaurants across 100+ cities in China. Same-store-sales growth has been negative, and cost pressures have hit margins, driving down the share price. There are signs of restaurant competition easing in first-tier cities. The company has embraced the growing takeout culture, as Ajisen’s takeout business grew 168% in 2016 and accounted for 6.4% of restaurant sales. In late 2015, Ajisen China invested US$70m in Baidu Takeout Delivery. The shares trade at P/B of 0.9x and P/E of 14x. However, after adjusting for net cash of HKD 1.06 per share and the estimate value of Baidu Takeout Delivery of HKD 1.02 per share, Ajisen China shares trade at a P/E of 4.3x.

CHINA DONGXIANG (HK: 3818) operates a branded consumer business that includes the *Kappa* casual sportswear brand in China and Macau. In 2008, China Dongxiang bought Phenix Co, a multi-brand ski and outdoor wear company based in Japan. China accounts for 78% of Dongxiang’s sales. The shares collapsed from 2010-2012 following the peak of China’s sportswear market, inventory problems, foreign competition, and the departure of a CEO who had been on the job for less than a year. The number of *Kappa* stores in China has declined accordingly but has rebounded slightly since 2014. Today, the industry is much healthier after four years of inventory de-stocking and store rationalization. Competition remains fierce and operating performance can be divergent. Dongxiang is in a better position due to its foreign brand, "more fashion than function", and a strong balance sheet. In 2011, Dongxiang's Chairman made an important decision to invest US$100 million in Alibaba via Yunfeng Fund. In 2014, Dongxiang sold 30% of its Alibaba stake and recognized a profit of RMB 686 million. Adjusting for the remaining stake in Alibaba, net cash and other investments, Dongxiang trades at slightly negative enterprise value, i.e., investors get the *Kappa* and *Phenix* brands for "free". With insiders buying and the Beijing Olympics slated for 2022, the company appears to have a favorable longer-term outlook. The headline valuation numbers include a P/E of 10x, P/B of 0.7x, and a dividend yield of 6%.

Jiro Yasu, Representative Director, Varecs Partners

AMUSE (Tokyo: 4301) is a management company of Japanese music artists. The company has a market cap of ~30 billion yen, with net cash of 20 billion yen. EBIT is roughly 3-4 billion yen. Jiro believes the equity has a good risk reward profile, with downside protection (~45% of market cap in net cash and securities) and estimated intrinsic value of 3,281 yen per share (~40% upside potential). Amuse's business should continue to steadily grow, as the live event market should continue to grow and the decline of the music rights business may stabilize or turn around as paid-subscribers for music streaming services grow. Amuse's discount to intrinsic value may get smaller as revenue and profits increase and shareholder returns improve. The company may garner more attention in 2018, the 40th anniversary since its founding, as some large-scale events are planned. The founding family owns 30% of the shares. Jiro derives upside of ~40% by applying multiples of 8x EBIT for the artist management business and 10x EIBT for the content business.

Roshan Padamadan, Fund Manager, Luminance Global Fund

INDIAN LIFE INSURANCE is an attractive market, as there is ample room for growth (one statistic: only 28 million Indians, out of a population of 1.25 billion, are tax filers; of the latter, only 12 million actually pay taxes). The government's recent attack on the cash economy is good for regulated products. Insurance is being increasingly bundled with other products, such as bank deposits and remittance services. There is limited competition in the life insurance market, as banc-assurance is the dominant distribution channel (~70%) for private players. Roshan believes that the insurance industry can grow at 2x GDP, resulting in a potential CAGR of 12% over the next two decades.

ICICI PRUDENTIAL (India), founded in 2000 and based in Mumbai, is one of the largest private life insurance players in India. The company is 55%-owned by ICICI Bank and 26%-owned by Prudential Corporation (Prudential may sell down further to a floor of 20%).

MAX LIFE (India), founded in 2000 and based in New Delhi, is one of the largest private life insurance players in India. It will become the largest players, ahead of ICICI Prudential, following the proposed merger with HDFC Life, which should be completed in Q4.

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

SAMHO DEVELOPMENT (Korea: 010960): Established in 1976, the company engages in the civil engineering business and constructs expressways, subways, bridges, tunnels, facilities and complexes. The company is expected to generate stable earnings based on its expertise in government projects and backlog of public construction contracts. The company focuses on its construction services and does not engage in any real estate development projects. It has a strong balance sheet with little debt and no exposure to project finance loans. Management has begun to adopt more shareholder-friendly policies in recent years, including buying back shares and increasing dividends. The equity has a sufficient margin of safety as net cash and investments (~135 billion Won) are larger than the recent market cap. The company's cash holdings "sleep" in a bank account at an interest rate of less than 2%, significantly reducing ROE. Returning cash to shareholders should improve the ROE and dividend yield, resulting in a higher multiple for the business.

KYUNGDONG CITY GAS (Korea: 012320): Established in 1977, the company supplies gas to households and industrial complexes of Kyungnam Province in Korea. Situated in the heart of Korea's manufacturing base, industrial demand accounts for 70+% of revenue. The company is expected to generate steady cash flow; the business requires minimal capex. Government regulations restrict the entry of new players in the region, allowing the company to enjoy high barriers to entry. Management plans to convert into a holding company structure and spin off the gas business. The conversion should reduce the market discount on cash and investments and boost the valuation multiple of the business. The equity appears undervalued considering its operating value of 240 billion Won and net cash and investment holdings of 140 billion Won.

GS HOME SHOPPING (Korea: 028150): Established in 1994, the company is a non-store retailer that operates Korea's leading cable television shopping channel. The company possesses a strong brand, having pioneered home shopping in Korea since 1995 and maintains superior bargaining power over merchants. The Korean home shopping industry enjoys high barriers to entry as the government limits the number of players. The company is expected to benefit from growth opportunities in its mobile and international operations. The home shopping business requires little incremental capex to grow; nearly 100% of net income is free cash flow. The company holds excess cash and investments of nearly 1 trillion Won, equivalent to 80% of the recent market cap. Management can unlock intrinsic value by returning cash to investors in the form of buybacks and dividends. This would reduce the cash discount and improve ROE, likely resulting in a higher multiple on the business.

Max Hu, Portfolio Manager, Tyee Capital Group

CTRIP.COM (China: CTRP) just transformed into a Chinese monopoly OTA (Online Travel Agency) business, after its surprising but successful acquisition of its two leading competitors, Qunar.com and Elong.com in 2016 and 2015. Ctrip now holds more than 70% market share in China's OTA business. The new market position will allow the firm to expand operating margin from currently below 10% to 20% within next two years, on track to match Priceline's 30% operating margin in the long term. Revenue and earnings are projected to grow at a rate between 40% to 50% within next five years. The shares recently traded on a 2018 forward P/E multiple of 28, not cheap. Max suggests considering the puttable convertible bonds with a floor of 100, recently trading at 116. The convertible bonds provide similar upside as the common stock but with better downside protection.

Ankur Jain, Investment Advisor

PIRAMAL ENTERPRISES (NSE: PEL) is an Indian conglomerate with interests across financial services, pharmaceuticals and information management. The group is led by Ajay Piramal, one of the best capital allocators across Indian businesses. The key differentiation is Piramal group's laser focus on creating businesses that enjoy a lollapalooza of competitive advantages. Business with intellectual property, high margin potential, scale and low cost of operations is the mesh on which the Piramal group builds any business. With an impressive track record of mergers and acquisitions behind it, Piramal has created three valuable businesses within the company. The three businesses have reached critical mass and management intends to separate them at an opportune time to unlock value. With a recent market cap of $4.8 billion, the equity trades at 24x FY17 expected EPS. Given the conglomerate structure, reported earnings do not yet reflect the full value of the company. Ankur estimates that based on a sum-of-the-parts valuation, Piramal trades at a discount of 30-35% to intrinsic value. With a long runway ahead for the underlying businesses, Ankur considers the shares a compelling investment.

Rohit Chauhan, Portfolio Manager, RC Capital Management

PIRAMAL ENTERPRISES (NSE: PEL) is an external growth story with a great capital allocator as the CEO, who is very disciplined in terms of acquisitions and leveraging the growth opportunities in the Indian economy. The "outsider" CEO has built the company over the last 28 years and delivered a return of 28% CAGR over this period via growth, acquisitions, and strategic sale of businesses. ROCE of 10% understates the underlying profitability due to ongoing investments in acquired businesses and under-accounting of income in strategic investments. The company continues to grow at 30% and is selling at ~25x suppressed earnings. Rohit estimates normalized earnings power at roughly twice the current earnings. He expects value to be unlocked via a demerger of the various businesses in the medium term.

Rajeev Mantri, Executive Director, Navam Capital

KAVERI SEED COMPANY (India: KSCL) is an industry-leading developer and marketer of seeds in India. The Indian agriculture industry is seeing a drive to raise farm productivity, and the Indian government has set a target to double farmer's income in the next five years. The productivity drive requires using seeds that deliver higher yields, requiring hybridization and increasing seed replacement rates. Farmers have shown a willingness to pay for commercial seeds that deliver higher yields, as it directly increases their income. The seed business has three significant barriers to entry: technical, regulatory and brand. Since inception in 1986, Kaveri has maintained a sharp focus on the customer, the Indian farmer, demonstrated a strong commitment to research and development, and achieved success in developing new products and entering new markets. Over the last ten years, Kaveri has grown revenue at a compounded growth rate of 30% and EPS at 32%. Through this growth burst, it has maintained profitability and enviable operating metrics, with gross margins consistently in the mid-50% range. The business has substantial headroom for growth, with the Indian seed market projected to grow to over Rs 270 billion ($4 billion), from the current size of Rs 210 billion ($3.2 billion) in the next three to four years. Kaveri has negligible debt and is cash-rich (with a current market capitalization of Rs 38.7 billion, it reported cash of Rs 5.2 billion as of December 31 2016), and is proposing to initiate a stock buyback.

Samit Vartak, Chief Investment Officer, SageOne Investments Advisors

BALKRISHNA INDUSTRIES (India: BALKRISIND or BKT) is a niche play on the off-highway tires (OHT) segment with ~5% global market share. BKT derives 74% revenue from the replacement market wherein margins are 3-5% higher than OEMs. The company has strong global network comprising 200 distributors across 120 countries catering to the replacement market. BKT is one of the lowest-cost manufacturers of OHT industry globally (due to lower labor cost in India), which allows the company to price its products more competitively. This coupled with strong focus on product quality has helped the company consistently gain market share over the past decade. In the last ten-year period, when global demand for OHT has barely grown at low single digits, BKT has compounded its topline and net profits at an annualized rate of 18% and 24% respectively. BKT has recently nearly doubled its capacity to 300,000 MTPA and at 57% capacity utilization, generates ROCE and ROE of > 20% and will be debt free within the next 6 months. Global demand has troughed and many OEMs have seen signs of growth. Given BKT's cost advantage, we expect the company continue gaining market share and maintaining its historical growth rate. With improvement in capacity utilization, operating leverage benefits will push the post-tax ROCE above 25% in the next 2 years. We believe that for a company which has consistently delivered and with sustainable ROCE/ROE/EPS growth of > 20% over the next 3 to 5 years, valuation of ~10x one-year forward EV/EBITDA and ~16x one-year forward P/E is attractive.

Jatin Khemani, Chief Executive Officer, Stalwart Investment Advisors

WONDERLA HOLIDAYS (NSE: WONDERLA) is a leader in a nascent industry that benefits from the demographic picture in India (population of 1.25 billion with a median age of 26 years). The company has a market cap of close to $300 million and a debt-free balance sheet. The business is run by an owner-operator who is in his early 30s who owns more than 70% of the equity and appears to be an intelligent fanatic who is determined to exploit the large market opportunity.

Viraj Mehta, Fund Manager, Equirus PMS

AVANTI FEEDS LIMITED (NSE: AVANTIFEED) is India's largest manufacturer of prawn and shrimp feeds, shrimp processor, and shrimp exporter. Avanti has established a joint venture with Thai Union Frozen Products (BKK: TU), the world's largest seafood processor and leading manufacturer of prawn and fish feeds in Thailand, with integrated facilities from hatcheries to shrimp and fish processing. Avanti has three feed manufacturing facilities. The main activities are manufacturing of shrimp feed, processing, and export of shrimp. India is a leader in shrimp supply to the U.S. Avanti has strong brand name in the industry and 40+% market share in the shrimp feed market (improved from ~20% over five years). Avanti commands a price premium of ~5% over other products in the market. Strong management execution over the last five years has resulted in revenue growth of ~58% over the last five years, with improving profitability (~11% EBITDA margin) and ROE of ~50%. Avanti accounts for more than 60% of industry profits. The company has $40+ million of net cash after distributing ~$10 million in cumulative dividends over the last five years. The company also passes Viraj's test of management having "skin in the game". The earnings multiple is 17x for a business that could grow earnings at a CAGR of 25% over the next three years.

RAJEEV AGRAWAL, MANAGING PARTNER, DOORDARSHI VALUE ADVISORS

CHAMAN LAL SETIA EXPORTS (BOM: 530307) provides basmati rice, a niche segment in the large rice market. A particular variety of rice grown in limited area of India and Pakistan can be classified as basmati rice. This geographical protection, coupled with increasing affluence, newer markets, and product moving from commodity to brands give this segment a strong tailwind. Management has been in the business for forty years and owns ~75% of the company (the maximum permissible by law for a listed company). The company has continually improved operational performance, translating into high returns on capital and attractive growth rates. The equity trades at ~14x earnings — attractive for a company that has grown earnings and EPS at a CAGR of ~35% over the last decade and could have similar growth rates in the foreseeable future.

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