ASIAN INVESTING Summit

*Annual investment conference, fully online,*
*hosted by MOI Global, April 14-16, 2021*

# Selected Session Highlights from Asian Investing Summit 2021

*The following snapshots have been provided by the respective instructors or compiled by MOI Global 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.*

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*Rajeev Agrawal, Fund Manager and Managing Partner, DoorDarshi India Fund*

**Kaveri Seed Company** (India: KSCL) is a top-three seed company in India, with ~10% market share of the hybrid seed market. Kaveri is among the top three producers of cotton seeds, with ~15% market share. It is a top-three procurer of maize hybrid seeds and ranks among the top five players in the rice market.

Seed is less than 5% of the cost to a farmer. As a result, a good seed producer commands high margins. Kaveri has consistently earned 20+% margins at the EBITDA and PAT levels. The business has low capital intensity, thus allowing Kaveri to earn 20+% ROE and ROCE as well.

The shares recently traded at a P/E of ~10x and EV/EBIT of ~9x. The company's diversified seed portfolio and growth opportunities in rice, maize, and vegetable seeds provide an additional margin of safety. Lastly, the business is run by an owner-operator with 55% ownership. Minority shareholder interests are well-aligned with those of management.

*For additional investment insights, please see a recent article by Rajeev.*

*Max Hu, Executive Director, ZZ Capital international*

**Unity Software** (US: U) is the world's leading platform for creating and operating interactive, real-time 3D (RT3D) content. The main business has been established over the past two decades around game development platforms, especially mobile games.

The company has been part of a duopoly in the global game engine market (along with Epic Games' Unreal Engine), serving millions of independent game developers worldwide. Unity derives ~15% of revenue from the Greater China region and ~40% of revenue from Asia. It is the dominant platform in China, with more than 60% market share.

Chinese users have the highest engagement globally, surpassing US users, but monetization levels have been low. Unity has been accelerating its Chinese business, with revenue growth amounting to ~80% last year in China. In addition to Chinese growth in the near term, the company is also uniquely positioned to benefit from long-term growth in Virtual Reality.

Unity has a market capitalization of $28 billion and a forward P/S ratio of 27x, a “bubbly” multiple. However, if Max’s prediction about the future of virtual worlds holds true and the company executes well along the way, it may offer a once-a-lifetime investment opportunity, according to Max.

*Peter Kennan, Managing Partner, Black Crane Capital*

**Sky Network Television** (New Zealand: SKT) is a monopoly New Zealand satellite pay TV operator with a growing number of streaming subscribers. It connects via satellite to one-third of New Zealand homes. Sky has exclusive rights to NZ rugby for the next five years. The company has a market cap of NZ$ ~300 million and trades at 2x EBITDA, with zero net debt.

*Amey Kulkarni, Founder and Fund Manager, Candor Investing*

**CARE Ratings** (India: CARERATING) is a debt-free, non-commodity, oligopolistic business at the start of a cyclical upturn, available at a cheap valuation.

Credit rating agencies are market infrastructure entities in India and are tightly regulated by SEBI (Securities & Exchange Board of India). Financial institutions, banks, and debt investors rely on credit rating agencies to make pricing and investment decisions. The credit rating market tends to be oligopolistic in nature; in India, the top five players control the bulk of market share.

CARE Ratings is the second-largest credit rating agency in India, with 18% market share. This ranks behind CRISIL (46% share) but ahead of ICRA (18%), India Ratings (12%), and Brickwork ratings (6%).

Headline issues have affected CARE Ratings, resulting in a below-average P/E ratio of 16x, as compared to CRISIL’s 37x and ICRA’s 34x. Amey believes that the key issues have been adequately addressed and that CARE’s discount valuation is unwarranted.

*Amit Kumar, Associate Director, Unifi Capital*

**ICICI Securities** (India: ISEC) is a subsidiary of ICICI Bank, which owns 75% of ISEC. The latter commenced operations in 1995 and went public in 2018. ISEC operates ICICI Direct, an online financial supermarket, meeting the three need sets of clients: investments, insurance, and borrowing. ISEC has four business divisions: broking, distribution of financial products, private wealth management, and investment baking.

In all business divisions, a long runway of growth exists due to the financialization of savings in India, as the low interest rate environment makes equities and mutual funds relatively more attractive. Demographic trends are favorable in India, as young people constitute a major portion of the workforce.

The business model is asset-light, requiring minimal capex and no inventory. The company generates strong FCF, a major portion of which is paid out as dividends as the business does not require capital for growth. ISEC aims to digitize processes and develop technology tools. The company is likely to benefit from industry consolidation and gain market share. Amit expects consistent earnings growth and sustainably high returns on equity.

*Andrew Macken, Chief Investment Officer, Montaka Global Investments*

**REA Group** (Australia: REA) is the leading Australasian property-listings platform. In its home market of Australia, it is by far the largest listings platform (in a highly-concentrated market) and adds significant value to property buyers and sellers.

Andrew believes REA is substantially under-monetizing today relative to the size of its addressable market. Furthermore, REA's domestic addressable market will likely double over the coming years driven by higher housing turnover (supported by new regulation) and higher property prices (supported by central bank policies).

In addition to Australian property listings, REA has profitable growth options in other real estate services in Australia; as well as multiple market-leading positions in attractive property markets across Asia, including India and Indonesia.

Andrew believes REA is a stock that at first appears expensive at 39x EV/EBITDA, but is undervalued relative to its longer-term earnings power – which brings the effective EV/EBITDA multiple down to well below 10x.

*Rajeev Mantri, Managing Director, Navam Capital*

**Havells India Limited** (HIL) (India: 517354) is an industry-leading, best-in-class electrical goods and consumer durables manufacturer in India with a market capitalization of INR 645 billion / US$ 8.8 billion. The company is well-positioned to capitalize on rising per-capita incomes in India, which provide a strong tailwind and should lead to higher discretionary spending on electrical goods and consumer durables.

With a strong R&D focus, a track record of profitable growth, superior financial management, and strong emphasis on nationwide distribution, HIL has the opportunity to emerge as a global-scale player in its industry while it enables the transformation and modernization of the Indian home.

Along with the rise of the domestic market and enabling government policy, HIL is also positioned to capture large export opportunities. A shakeout of subscale, non-organized sector players in the Indian electrical goods industry through the Covid crisis has strengthened HIL.

The company’s leading-edge capabilities, proven leadership, and growth headroom should lead to substantial earnings growth in the years to come.

*Vinod Moras, Senior Investment Analyst, Kiara Advisors*

**Zydus Wellness** (India: ZYDUSWELL) is a health and wellness products company in India, with a dominant position in niche food and personal care products. The company dominates five of the seven categories in which it operates. Most of the products are in their early stages of consumer penetration, affording the products a long runway for growth. Rising disposable income and chronic diseases in India are resulting in an increasing focus on Indians leading healthier lifestyles, and Zydus should be the biggest beneficiary of this structural trend.

The company received a major boost after the acquisition of Heinz India’s consumer portfolio. The total addressable market size has increased fourfold, alongside entry into four new product categories. The acquisition has given Zydus the supply-chain and distribution scale that will let it compete against the bigger consumer companies.

Zydus has a good track record of launching market.leading products due to strong management and R&D teams as well as pharma company parentage.

The recent market quotation is attractive in light of the growth potential for the company’s products and the high quality of the management team.

*Ayaz Motiwala, Director, Amala Emerging Asia Fund*

**Vinati Organics** (India: VO) is a specialty chemicals company in India, with a business philosophy based on developing products with clean and green chemistry. Vinati is the leading player globally in Acrylamido Methylpropane Sulfonic Acid (ATBS), which accounts for more than one-half of revenue, and a leading player in Isobutyl Benzene (IBB), which accounts for one-quarter of revenue.

The business is run by a first-generation entrepreneur whose team is focused on launching products that have a unique chemical process, which gives Vinati a long-term cost advantage and the potential to become a leading global player. The company's product development capability is supported by captive research and industry partnerships with leading Indian and international players in the field of specialty chemistry.

Vinati has been a good allocator of capital, as demonstrated by ROE consistently in excess of 25% over the last decade even as the asset base has expanded more than ten-fold. During this period, the company has compounded revenue at 16% while operating profit and net profit have compounded at 24%.

Vinati continues to grow in existing products. ATBS capacity has recently been expanded from 25,000 tonnes per annum to 40,000 tonnes per annum. It has launched a range of Butyl Phenols using in-house manufactured Isobutylene (IB) at an investment of Rs. 2.5 billion. These actions and the recent acquisition of manufacturer Anti Oxidants (a downstream product using Vinati's existing products) are the key drivers of revenue growth in the medium term.

Ayaz expects revenue and profit to compound in excess of 20% over the next three to four years while the company maintains solid profitability.

The shares recently traded at 9x revenue and 32x earnings based on Ayaz's FY23 estimates. Ayaz believes the company has a room to surprise on the upside if it is able to rapidly scale up the antioxidants opportunity. The founder and his family own 74% of shares outstanding, close to the highest level allowed for a public company in India.

*Roshan Padamadan, Chairman, Luminance Capital*

**SingTel** (Singapore: ST) provides a haven of stability amidst macroeconomic uncertainty, serving a total of 9% of the world's population, including through its associates in Asia. Profits, pricing, and usage are likely to improve from COVID-depressed lows in the years to come, and major challenges in markets like India appear to be behind the company. SingTel is a pan-Asia-Pacific play with exposure to Singapore, Australia, Indonesia, the Philippines, Thailand, and India. The recent dividend yield of ~4.2% is defensible and represents an exceptional yield for a “blue chip” company.

*VP Rajesh, Managing Partner and Portfolio Manager, Banyan Capital Advisors*

**IDFC Limited** (India: IDFC) is a holding company, with significant value “locked” due to the corporate structure. IDFC owns two valuable assets: a significant minority stake in IDFC First Bank (IFB) and 100% of IDFC Asset Management (AMC).

IDFC’s management appears committed to dismantling the holding company structure. The latent value is likely to be unlocked over the next 12-18 months because of new Reserve Bank of India guidelines, which are expected to be announced in the coming months.

The sum-of-the-parts value, comprised of the IFB and AMC stand-alone values, is significantly higher than the recent market valuation of IDFC, despite value-unlocking catalysts.

From a risk-reward perspective, IDFC appears to be a classic case of an asymmetric value bet -- “heads I win (big), tails I don’t lose much”.

*Rahul Saraogi, Managing Director, Atyant Capital Advisors*

**Praj Industries** (India: PRJ) is a technology and capital equipment company and a world leader in the ethanol, brewery, biogas, and hipurity segments. It has 70% market share in India, a country with an ethanol blending target of 20% (up from 8%). Rahul sees strong growth ahead for the company and its end markets.

Praj has conservative and healthy financials, with $47 million in cash and no debt. Corporate governance is good, with an ethical promoter and efficient capital allocator at the helm.

Ultimately, Rahul sees Praj as more of a technology business than a capital equipment business. He anticipates both earnings expansion and multiple expansion in the coming years.

*Sidd Thomas and Kimi Venkataraman, India Intrinsic Value Advisors*

**Shriram City Union Finance** (SCUF) (India: SHRIRAMCIT) is a leading non-bank financial company (NBFC) in India. Part of the wider Shriram group, SCUF is known for its prowess in subprime, semi-rural lending.

SCUF has created a strong franchise in the medium and small enterprise segment and the two-wheeler loan market in India.

The company has a strong track record over the last ten years of growing assets and book value, along with high returns on equity, while employing low levels of leverage.

At a market quotation of 1.2x book value, the shares trade near historical lows. Sidd and Kimi believe the shares may be worth twice the recent market price.

*Florian Weidinger, Chief Executive Officer, Hansabay*

Florian focuses on three flavors of ideas in Southeast Asia:

- *Discovery:* investing in undiscovered companies that should gain broader market acceptance and whose managements are likely to improve investor communications
- *Activism:* creating a value realization catalyst by driving management change
- *Special situations:* the region offers many complex or event-driven opportunities, which generate attractive returns while the markets remain undiscovered by foreign investors

**Coteccons Construction** (Vietnam: CTD) is a discovery idea. It is the leading construction company in Vietnam. It has been subject to a successful attempt by the second-largest shareholder to oust and replace self-dealing management. As a result, Coteccons is a restructured company set to ride the construction cycle in booming Vietnam. The shares are cheap, with a P/E ratio of 0.7x, a P/E of 10x, and a dividend yield of 4+%. The foreign ownership limit has not been reached yet, so the shares are available for purchase by foreign investors. A catalyst might be market (re-)discovery post the recent management change.

**Cosco Capital** (Philippines: COSCO) is an activist idea. It is a holding company at an eye-watering discount to traded majority-owned subsidiary Puregold (a Philippine “blue chip” supermarket chain and uncontroversially a good business. Cosco Capital shares have ~60% upside to parity with the market value of its Puregold stake. Florian sees additional ~190% upside when taking into account Cosco’s property portfolio and liquor distribution business. A deep value investment case can also be made on the basis of earnings, with the shares at less than 9x consumer business earnings. A series of value-creating measures over the last few years serve as a catalyst, and the distribution business is in the process of getting a separate stock market listing. Cosco Capital combines elements of all three idea types, as it is a special situation, remains undiscovered with practically no analyst coverage, and Florian has been constructively driving change with the management team.

**Siloam** (Indonesia: SILO) is a special situation idea. It is a major hospital operator in Indonesia. The company is part of Lippo, a historically over-leveraged group with a mixed reputation. However, Lippo insiders are compelled to make Siloam work as this is their only bona-fide operating business outside of the property sector, and it supports the equity valuation of the holding company (Indonesia: LPKR). Siloam is well-positioned to benefit from a compelling industry thesis, driven by healthcare spending per capita and healthcare laws in the country. A minority private equity investor (CVC) has been looking out for the interests of fellow minority shareholders. Siloam is also an earnings recovery story, as the drag from new hospital expansion decreases over time. With the shares at ~8x forward EBITDA, they are quite cheap for an emerging markets healthcare company. A potential catalyst is the controlling family's (Lippo Karawaci) agenda of capital market outreach.

*For additional context on Southeast Asia, please see a recent article by Florian.*

*Jiro Yasu and Patrick Rial, Varecs Partners*

**ipet** (Japan: 7339) is the second-largest pet insurer in Japan. The company has been growing revenues at a 22% CAGR over the last five years as penetration of pet insurance has gradually increased. With only 10% penetration currently, there is still a long runway of at least ten years of growth, in Jiro and Patrick's view.

ipet and Anicom (Japan: 8715) dominate the market because they allow payment settlement at animal hospitals, rather than upfront payments followed by tedious mail-in reimbursement used by other insurers. ipet has been adding more contracts than Anicom for the last three years and is gaining market share.

Still, on a per-contract basis, ipet trades at less than half the value of Anicom and 10% of the value of US-based Trupanion. Jiro and Patrick believe the discount is due to factors such as low liquidity, as parent Dream Incubator (Japan: 4310) still owns 56% of the stock, and an IR strategy that fails to adequately convey the growing value of the business.

Jiro and Patrick are encouraging ipet to emphasize the subscription aspects of their business model, where upfront spending to acquire new pets depresses near-term profit, but pays off down the road. Once a higher valuation is achieved, Dream Incubator is likely to reduce their stake, leading to increased liquidity and a further rerating.

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