

valueIdea Presentation: Tan Chong (HK: 693), Willas-Array (Singapore: WAE)

Instructor: Seng Chong Yeo, Chief Investment Officer, Yeoman Capital Mgmt

Hosts: John Mihaljevic and Oliver Mihaljevic, ValueConferences

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Replay: <http://www.valueconferences.com/2014/04/asia14-seng-chong-yeo/>

Oliver Mihaljevic: I'm delighted to introduce Seng Chong Yeo, Chief Investment Officer of Yeoman Capital Management based in Singapore. I've had the pleasure of learning about investing in Asia from Seng Chong through our conversations over the past couple of years and you can access the videos of these conversations online. Seng Chong is one of the best deep value investors you will find in Asia, having delivered a mid-teens return to investors going back more than 15 years now. Before founding Yeoman Capital Management in 1999 Seng Chong served in top management of several public listed companies in Singapore and Seng Chong has made use of these operational experiences to avoid value traps and identify, not just quantitatively cheap equities, but stocks where management in the business itself can be positives for the investor. Today Seng Chong will share with us two such equities and I encourage you to make the most of the Q&A later on, not only to dig deeper into the two ideas, but take advantage of Seng Chong's experience and ask really everything you ever wanted to know about investing in Asia. We truly have a local expert here with us today and with that, I'd like to turn it over to you Seng Chong for your remarks please go ahead.

Seng Chong Yeo: Good morning to you and good evening to me over here in Singapore, 12 hours time difference. I am pleased to share with the viewers here, two case studies for today's conference. These two cases are stocks that

we currently hold in our portfolio. In our portfolio there is a total of 66 stocks to date so, these are just two out of 66. My objective is really just to show through these two cases, stocks that we own and have got foundation criteria there and how these two ideas actually reflect the larger portfolio and how we position a portfolio in terms of valuation matrices as regards the broader market. How our security selection and how our portfolio construction actually set us up for our performance against the market over the longer term. Well, without further ado, I would like to proceed onto the first slide, next slide please Oliver? Thank you.

The first stock that I would like to share with you is called Tan Chong International Limited, the ticker is TCI SP or ticker 693 in Hong Kong. The business, well, it is in heavy commercial and motor vehicle distribution, industrial equipment distribution and supporting businesses in the area of property rental and property development. The place of listing, the primary listing is in Hong Kong and the secondary listing is in Singapore. The business model has got an Asia regional reach and by that, I mean Singapore, Thailand, Hong Kong, Taiwan and the People's Republic of China. The market capitalisation is today, just under USD800 million, the listing history has, we require a listing history for all our investor companies, is 16 years. It was first listed in 1998 following a restructuring of the Tan Chong group of companies. So, we do have a stock with listing history in excess of 10 years over here. Oliver, Thank you.

The valuation ratios at price of HKD3.00 is, in PE terms, price earning terms, 2.75 times, but if we were to exclude the revaluation gains on properties, the adjusted PE trailing is 6.5 times. The price to book ratio is 0.58 or just under 0.6 times. The dividend yield is 3.17% per annum, it's paid twice a year and the dividend record is outstanding. It has paid a dividend twice a year for every year since listing in 1998 without fail. The return on equity, including revaluation

gains is 23%. If we were to exclude the property revaluation gains in the last financial year, the ROE comes down to a high single digit of 8.5%. Next slide please Oliver? Yes, good, thank you.

Now I comment on the management. I've given you the financial parameters earlier on, but how about the soft aspect, that is the people who sit on the Board and sit on the executive team of the company. Well, we have not met with the company for quite a while now, but we do know from the published financial statements that the directors' remuneration is modest at under 4% of the net profit in the last financial year and that suggests that management is modest in terms of its demands on salaries that are taken out of company's pre-tax profit. Over the listing history of the company, there have been no losses, which suggests that the management indeed has got good operational acumen and ability. The balance sheet of the company over its entire listing history has been unimpaired; it's always been in a net cash position with cash pile growing every year as we speak. Cash aside, the balance sheet book value has grown steadily over the years to the tune of 6% to 7% compounding book value growth. The business footprint over Asia has grown with no "di-worse-sification". Di-worse-sification is a term coined by fund manager, Peter Lynch and this suggests that the company has been focused in its core business; there have been no side lines which have caused harm to the company.

Its earlier core business was the distribution of Nissan auto vehicles in Singapore; they expanded it to over the Subaru range of motorcars, but the market in Singapore is small and being highly restricted by the government policy requiring Certificates of Entitlement. The company looked for fresh areas of growth including the manufacturing and assembly of trucks, Fuso trucks in Thailand and distribution of cars in Hong Kong, Taiwan as well as industrial equipment which covers fork lifts and other industrial machinery all over the

larger China region. Over the 16 years of listing, there have been no dilutive share issues. As minority shareholder in this company, we have not been forced by the company to be diluted down through some actions that are not friendly to minority shareholders. The insider ownership, that is to say, the major shareholders stand at 75% of the company which suggests that, we as minority shareholders are in the company or people who are committed to the business. Next slide please. Well, the comment I would like to make at this stage is that our fund and our clients have owned this stock, on and off, since 1999. We've known it for a long time, both the financials of the business and the character of their people on the management team. The present position that we have in our fund was acquired from 2006 onwards and we still own the stock today.

With that, I would like to take you onto the next case study which is Willas-Array Electronics (Holdings) Limited. This stock has been listed in Singapore since 2001 under the ticker WAE SP. Around about 6 months ago it initiated a dual listing in Hong Kong under ticker 854 HK. Management explained that the reason for the Hong Kong listing is so that their customers and business partners in the Hong Kong and Greater China area would be able to access their financials of the Hong Kong Exchange and, therefore, give their customers greater transparency as well as confidence in Willas-Array. The business is in the trading of electronics components, the place of listing was in Singapore for the last 13 years, but in the recent 6 months, Hong Kong as well. Geographical reach is Greater China which suggests Hong Kong, the People's Republic as well as Taiwan. Market capitalisation is at the other end of the spectrum as compared with the earlier case study that I showed you. It is at USD 41 million. Listing history, as mentioned earlier has been since 2001 or 13 years. Thank you.

The valuation ratios of this stock have been calculated at price of SGD0.135. There's a slight change here in terms of trade price, today the price is trading at SGD0.16, but things haven't changed all that much, but you do know the reference price is SGD0.135. The PE is just under 7 times, the price to book ratio is just under 0.6 times and dividend yield paid every year, once a year on a trailing basis is at 7.4% per annum. It's not missed a dividend payment every year except one year in 2009 during the global financial crisis when the company had to clear inventory, take a small operating loss and only in that one year was the dividend payment omitted. The return of equity in the last financial year is a high single digit at 8%. Next slide please.

On the management, the director's remuneration is a bit higher than the previous example at 32% of net profit, but that's because the earnings base of the company is smaller. So, given the number of directors on the Board the percentage claim of the profit is a bit higher, but it's still within reasonable bounds in our current assessment. The balance sheet condition has been reasonably maintained, it is a geared balance sheet because it's a distribution business and needs to get funding for inventory or working capital. So, it is a geared balance sheet as opposed to the earlier example which is a net cash balance sheet, but the gearing is reasonably maintained and certainly not stretched in our own assessment. The balance sheet book value has been grown steadily over the years. Again, the management has grown the business prudently in our assessment of this public record without any di-worse-sification of Peter Lynch. Only one year of reported losses as mentioned earlier, there have been no dilutive issues, insider ownership that's the same a majority share owner stands at 42%. Well, the manager's comment, that's to say my comment, is that our fund and our clients have held this stock since 2006 and we still own the stock today.

The two examples as have been explained to you, but how does that relate to the other aspect of our world which is the construction of the portfolio which positions it for future returns? Well firstly, the stock valuations as I've pointed out to you earlier is comparable to our portfolio valuations and in some of the areas I would think that the stock valuations are even cheaper than our portfolio weighted average valuation ratio. For instance, on price-to-earnings multiple terms, Tan Chong International commands a P/E of 6.5x trailing, Willas-Array is at 6.85x, whereas, average for the fund, the trailing P/E ratio is at just under 11x. On P/E terms, these stocks are cheaper, they are valued at a discount to our larger portfolio. The next valuation parameter on a price to book terms Tan Chong International is at just under 0.6 times and the same for Willas-Array at just under 0.6 times, whereas our fund weighted average price to book is at 0.62 times. So, slightly less than the weighted portfolio average. In terms of dividend yield, Tan Chong is roughly at the same dividend yield as our portfolio, at 3.5%. Willas-Array, dividend yield is in excess of the portfolio at 7.4% compared to the portfolio's 3.7%, so double the portfolio dividend yield. So, again it adds value, it's valued accretive to the fund portfolio as a whole. In terms of the fourth parameter, which is the capital efficiency measure, the return on equity (ROE) one-year trailing of Tan Chong is at 8.5%, Willas-Array also at 8.5%, and our fund is at 7%. So, it adds a positive accretive effects to our fund portfolio.

I've explained the relationship of the stocks that we choose relative to the fund, but now I move on to explain how the fund, relative to the larger market is well positioned for up funds in the days. Our fund is relatively undervalued compared to the market. The MSCI valuation parameters here are taken from the MSCI website end-January of this year and our fund ratios are based on end-February. PE terms, our fund is cheaper than the market. We are at 11 times, the markets at 12 times. In terms of price to book our fund is at 0.6 times and the

market is at 1.47 or nearly 1.5 times. So, roughly we stand at 40%. If the market is given a price to book ratio of 1 times, we stand at 0.4 times, that gives us a lot of lift in terms of upside when we look at the price to book parameter in isolation. Dividend yield, again, our fund commands a higher dividend yield than the larger market. We stand at 3.7% as compared with the market of 2.5% so, we are in excess of 50% then, 50% greater dividend yield as compared with the market. So, then my last slide. Oliver next slide and my last slide? Thank you Oliver.

The concluding remarks I will make is on performance attribution. Because we don't know the future and we don't know the wiggles that the market will take day-to-day and week-to-week, we can only, by sheer strength of our security selection and portfolio construction, make sure that portfolio performance will come to our clients and shareholders in this way because our stocks selected are undervalued, which makes for a undervalued portfolio which makes for a portfolio that's undervalued relative to the market, we don't need to exercise the second item that I've shown you on this slide, market timing. Market timing is for people who know the future. With humility, we admit that we don't know the future, and we don't know the future direction in the market. The third point here is very important, as we speak and even tonight, after this conference is over and as I go to bed, I have the confidence and the knowledge that valuation of that is still undervaluation, it's always in our favour. The stocks are undervalued which makes for an undervalued portfolio which stands demonstrably, numerically, objectively undervalued relative to the market; therefore, we can have that confidence going forward. For the above three reasons, the fourth point and the point I'd like to conclude on, is that we are, therefore, able to be fully invested over all market cycles or economic cycles, no matter what the prevailing sentiment or market flavour might be holding

little or no cash. So, with that I'm case to end my little discussion here and I welcome any questions from Oliver, John and from the audience. Thank you.

Oliver Mihaljevic: Seng Chong, thank you as always for your thoughts, it's very instructive. As you went through your remarks on the two companies, what stood out to me was just how methodically you go through the various important considerations, whether it's the listing history, the insider ownership and some of the other factors that are clearly common among the way you discuss both ideas. I'm curious for investors sitting in New York or London or for that matter, not being very familiar with Asian markets as you are there locally and with your experience. How should one think about some of these factors that really present no opportunity to compromise for you? So, in other words, which factors to you look for that would disqualify you to include an idea in your portfolio perhaps that has to do with some peculiarities about Asia in order to avoid the quantitatively cheap stocks that can represent value traps?

Seng Chong Yeo: I understand the situation very well; if you could just help me perhaps back up the slides back to two or three slides earlier please, could you return to valuation Willas-Array perhaps. Good. This is very good, here we start with Willas' numeric, therefore, should be objective to a trained eye, to a disciplined eye, objective when your methodology is properly established and it must be the numeric ratios and numeric parameters must be investment justifiable. If this particular stock, Willas-Array, it's single digit PE, it was high double digit PE it would disqualify this idea, I would not be talking about it today, if it was a price to book well, if the price to book was 2 times, 3 times I wouldn't be talking about it today and more importantly, I wouldn't have it in our portfolio, but it just happens to be at 0.5, 0.6 times today. For me, as the first cut anything that is excess of 1 times price to book, I would really frown and I would tell my guys, look guys do we really have to go above parity of

price of book, if my guys can't give me a good reason because there are other contemplating reasons, strength of business demonstrated long-term sustainable ROE, cash generative, etc.

I might accept their explanation and allow them to pursue an idea in excess of 1 times price to book, but as a first cut below parity price to book gives me a nice warm feeling in the stomach as we speak. Dividend yield, if there's no dividend yield, if there's no dividend payments or, worse still, if there are cash calls and there are dilutive issues. These are negative dividend yields — we would “pay” the dividend to the company, that would disqualify the stock.

Back to the question of value trap. If the ROE was negative or zero or sputtering — one year +1%, next year -1% — those would be clearly spell value traps. So, on a higher basis, stocks that are overvalued on P/E or P/B, or ROE suggests poor capital efficiency, we would avoid.

Moving away from the numeric, but still numeric in some ways, if directors remuneration was excessive save for the case if director generation was 8% of company net profit, perhaps in a year when the company earnings have taken a dip, for that reason you cannot cut the pay on directors for that 1 year, for that 2 years, for a short time if the directors pay is relatively high. I suppose we could forgive that, but in a normal year director's remuneration should not take up the disproportional amount of the company net profits because we are investing in the company, not to feed the directors, but to feed, well not ourselves, but our shareholders.

A balance sheet showing gut wrenching ebbs and flows — one year the balance sheet is quite flat, the next year it's down, the next year there's a recap... those companies would be a no, no. Balance sheet growth links back to the previous

slide where there is an underlying ROE. There must be cash growth in the stock re-evaluated is not a value trap. ROE would lead, underlying ROE, sustainable ROE would lead to a balance sheet with added growth over a period of time, and maybe the emphasis here is over a period of time, too often people on the sell side on Wall Street may point to an amazing ROE, but it's a six-month trailing analysis only on the last one we are trading, but all the years before that, the actual ghastly ROE or ghastly balance sheet condition, those things don't come, those cases we would throw it out the window upon initial sighting. Businesses that stay focused, no di-worse-sification, that would a requirement and again, it's pointless as regards reported losses. We can tolerate one or two periods of reported earnings losses, but if they are recent and surrounding the issue such what took place with this particular stock during the global financial crisis, but a patchy earnings history is symptomatic of either weak business or weak management, both of which make it uninteresting for ourselves and our shareholders to invest.

Dilutive issues, I've talked about this before — there's a song by Paul Simon, "Slip-sliding away" — there are situations where we, as minorities are slip-sliding away all the time. We relish the prospect of being co-investors with insiders or major shareholders of a strong company, then we know that the stock that we're in are not situations where nobody wants them. Okay, back to Oliver. Thank you.

Oliver Mihaljevic: You mentioned a very important word, 'objectivity' in the way you assess these situations and looking for factors that can be objectively assessed. When it comes specifically to the issue of management and getting comfortable with the controlling situations that one often finds in Asia, can you perhaps just point to a few of the key objective ways to assess a management team and get comfortable with owner operators in Asia? What would be some

of your favourite objective factors to look for and which factors do you think investors pay too much attention too and you would consider more subject driven, therefore, less relevant to a methodical, even scientific, analysis?

Seng Chong Yeo: Sure, I understand the question Oliver. Perhaps if I can start with the second question first, before I go onto the first. The subjective way as explained earlier, is to rely on your emotions or gut feel. The objective way is as explained on this slide is before us right now. When we use this criteria that are now before your eyes, I think that these facts can be extracted from the audited financial record of the company, what we see before us on this first slide on management are the objective factors that we would pursue. It's very hard for funny management to disguise or mask, their intentions if a company has got listing history in excess of five years, they may well keep up the song and dance for a year or two or three, but with a long listed history, minimum five years, better still ten, it makes it hard for funny management to disguise their dishonest aspirations and intentions.

Oliver Mihaljevic: I noticed that both of these businesses in a way, are trading distribution businesses and I'm wondering whether that's important in your search for the right opportunities in Asia. Give us the sense of the types of businesses that you have found to be quite fruitful investment opportunities for you over the years. Is there anything that you have learned over the years, which types of businesses to avoid in Asia?

Seng Chong Yeo: When we prospect for stocks in Asia and even the Japan domain and we have a separate dedicated Japan fund now. What I am sharing with you today is from the Asia ex Japan fund. We find that when we are demanding on the Graham & Dodd net net requirement, we find that net nets don't occur in certain industry types. We find that net nets abound in Asia with

manufacturers, with distributors, in some cases service companies, say logistics, engineering consultants. In some cases maybe with some undervalued property developers, investment property or investment property companies. Once we move away from these business model types, once we have financial institutions, whether reinsurers, insurers, banks, especially regional or local banks, we find that balance sheet clarity can defy us.

We're a small team... we have to have sixty stocks in a portfolio, not only that we have to be always prospecting for new ideas for the portfolio. Once the sixty stocks reach valuation levels, we find that financial institutions do not suit efficient scaling up of the investment portfolio. For our present staffing and size of fund, and I would say, even if we were to double or triple our fund size, I would think that this would suit ourselves; balance sheets, as you said, are not very transparent, takes too much time to dissect. I'm not saying they're uninvestable, I'm just saying that they take too much time and effort to unravel. So that's one.

Then there are other cases where not only does it take time and effort to know, but there are many other situations where no matter how much effort you expend the real balance sheet condition cannot be properly known. Obsolescence, technology obsolescence, high capital consumption, this is known facts nor surprises, we don't have any airline stocks in our portfolio, we have no semi-conductor foundries, we have no social media stocks in our company, no internet stocks, (sorry) in our portfolio. So, as focused value investors working the ground that we do over here, we will pick our battles very selectively, we will pick the battles where we can punch once or twice and win. We will not get into a stalemate and come out missing a leg or an arm and course great harm to people that rely on us, namely our clients and shareholders.

John Mihaljevic: There are quite a few questions, I'll just go down the list. If a company is dual listed, what factors would you look at, to decide which market to buy the shares in and maybe related to that, could you also comment on western investors, whether they should look for local execution or brokerage partner or whether western banks are very present as well?

Seng Chong Yeo: The first question first, let's just say which exchange to buy, we take the view that or at least I take the view that the stock market is just a convenient point for transacting, making transactions whether to buy or to sell, there's no one stock exchange over the other. In these two cases they happen to be dual-listed. Willas-Array was Singapore-listed until months ago, whereas Tan Chong, a primary listing is always in Hong Kong with secondary listing in Singapore. Interestingly, the ability of the Hong Kong exchange is a lot lighter, there's a lot more liquidity in Singapore. So, depending on the price on any given day on my stocks, both the Hong Kong as well as Singapore transacted prices and then the offers on both sides. Well, I think you know the answer to this question; we should actually buy where it's cheaper, where we get a lower price, and we'll buy on that exchange. With respect to governance, the primary listing takes precedence over the secondary listing so, we know and things do go wrong, nothing has gone wrong in these two cases, but if things do go wrong in the case of primary versus secondary listing, we as investors will have to seek the recourse in the primary listing domicile. So, that's it, in answer to your question, the short answer is we buy on an exchange where it's cheaper and where liquidity allows us to get the shares that we need for that one day, for that one week and just execution is the second question John.

I would say that, like the stock exchange before you, I always think that in my experience anyway, that any stockbroker that's able to provide you the service at a competitive cost would be worth using. Most importantly, I would say that

make sure that the custody arrangements do not hold stocks with the institution's proprietary positions that you own these stocks and these are held in your own account, segregated from the stockbroker or the banks own proprietary holdings. I believe that's all that there is to it.

John Mihaljevic: A question on Tan Chong, could you talk about the makeup of their asset base and how much of it relates to real estate?

Seng Chong Yeo: Yes, this is very interesting, Tan Chong is the wonderful case of how, when you look at a stock that's trading at a price to book of 0.6 times when you go through them line by line and look at the dates for the valuation of the assets on the balance sheet, it makes for very, very exciting reading. It's almost like a detective novel. The balance sheet of Tan Chong has got inventory which comprises industrial machinery and industrial manufacturing comprises Nissan cars in Singapore, Subaru cars in Singapore, these are all inventory for sale. It also has a plant in Thailand and some of the assembly plants in China, there would be work in progress, there would be inventory parts and parts for production purposes. There would also be property, plant, and equipment for the manufacturing and distribution aspects of the business. Property would be the premises or the warehouses, the showrooms for the Nissan cars in Singapore, the development properties; and Tan Chong does develop and sell residential houses using their historical land bank.

Development properties are currently at present market value so, there's no hidden value for the properties. For the property, plant and equipment, I can share with you today and if you can get a copy of the latest annual report, it would show that the showroom in Singapore is carried at historical book value. So, there can be some mark to market gains if this property is ever, there's no plans for it right now, but if this property was to be sold for development and if

the showroom was to be moved to another location. They would have to spend money for that new location, but that's okay they would get present day market prices for their premises. So, you've got inventory, you've got properties, you've got plant for manufacturing, you've got plant equipment, you've got development properties which are marked to present-day market value. So that's Tan Chong.

John Mihaljevic: There are a couple of questions that are somewhat related, regarding your funds ownership history of Tan Chong. The one question relates to what made you decide to sell the position? You've owned it on and off so, at what point do you decide that it's no longer a good hold and second question relates to the listing history, you may have mentioned you like to see 10 years of listing history and is that a new criteria for you, you've owned Tan Chong since 1999 on and off?

Seng Chong Yeo: 1999 is a long time ago, I was a young man then and being young, I was a little bit more headstrong, but I wouldn't think that I was foolishly headstrong. When Tan Chong was listed in 1998 it was the result of a restructuring by the Tan Chong family and, in the past they had operations in Malaysia and Singapore as well, but resulting from restructuring of the family holdings structure. The Hong Kong listed vehicle came to life in 1998, but the underlying businesses and underlying business history of the company pre-dates 1998. It's a company with a long history of doing business in Singapore and Malaysia. So, although Tan Chong International was freshly listed in 1998 and we came in in 1999 and 1999 my goodness, as we speak that was 15 years ago, we were young and headstrong and probably not as wise and battered by life experiences as we are now, but even then, young though we were, we weren't foolishly so. At that time there was a very strong undervaluation case, the stock price, I should share with you that the stock price back in 1998, we started

buying it at HKD0.25 as compared with today's figure stock pricing HKD3.20, so at HKD0.25 from that time, if we had held on all the way through, you can imagine what kind of return we have got. It was very, very cheap and certainly, although new listing, there was actually an operating history predating the listing.

Today there are three Tan Chong companies listed on the Malaysian Stock Exchange, Warisan TC, Tan Chong Motors and APM. APM does auto parts, Tan Chong Motors distributes cars, Tan Chong International doesn't participate in the distribution business in Malaysia. That is the sole purview of the Malaysian listed Tan Chong company. Warisan TC is a company that distributes fork lifts, healthcare products and undergarments, intimate undergarments, ladies underwear. So, those are the relationships of listed companies Tan Chong International. These are operating businesses with long established ownership by the Tan and Chong families, indeed these are some of the dynastic corporations in Singapore and Malaysia. So, I think you can forgive us that we didn't religiously stick to our strict criteria back in 1999 because we thought the listing history and undervaluation was there even as we activated it in 1999.

I know this company well, not the people personally, but certainly the financial statements and businesses track record or performance over its listing history.

John Mihaljevic: Related to knowing these companies very well, could you perhaps talk a little bit about why you believe they are so cheap, especially on a price to book basis, and do you see any catalysts that could make them trade closer to fair value?

Seng Chong Yeo: Yes, it's very interesting, this is always a perennial question that growth investors and value investors like ourselves would lock horns and never the twain shall meet. Value investors will explain the undervaluation, growth investors would explain away the undervaluation, Value investors will say that there is potential in terms of upside, growth people would say there is a reason why it so cheap and look for reasons that will continue to dog it. The two schools of thought — the growth people and value people — we will never ever meet, because these are two opposing camps. First, from the work done by academics, whether it's Graham and Dodd, whether it's Dr. Fama or Dr. French in today's situation, we know that value outperforms growth over the longer term. When we value people invest in a cheap stock, the growth people will walk away disenchanted. That's fine, it gives us a relaxed unhurried window of opportunity. We should count it as a gift to us, there's no need to put any emotional burden on ourselves just because the growth camp is not applauding.

Now the third point on catalysts and rerating, I can probably answer your question in two ways. That's to say that when we assess the stock, we can see some areas of potential rerating and value unlocking, some unlocking avenues we can suspect of seeing a picture in our minds are actually also be humble and let you know that there are many other areas for value unlocking that we don't know and don't see, but it happens anyway. In some ways I'd like to point out when our stocks are undervalued relative to portfolio, but portfolio is undervalued relative to the market, as we go about our day-to-day there will be intelligent investors bigger than ourselves whether it's in a form of a private equity investor or whether it's in the form of a real business acquisition or whether it's through, the market rerating by a whole swathe of investors not known to us John, Oliver or Seng Chong, they have no names because it's the market, the market moves where there is undervaluation. I like to believe that when we sit on the side of undervaluation, kinetic energy in terms of price

movement is not evident, but potential energy in terms a stored power reserve, like a spring that is coiled, ready to burst, but with each passing day, if price does not rerate, but if the ROE keeps chugging along over a month, over a quarter, over a year, the compression in the spring — and hence the stock — will uncoil at a time that we don't know, but when it does uncoil, all the months and years that we spent waiting will not be in vain, because the rating is a point function, valuation is a point function, when you're sitting at point a at this particular price and it rerates and go to point b or c or d at that price, doesn't have to necessarily follow on your line at an incline of 8% or 5%, it doesn't have to. Rerating can be sharp, pleasant and sudden. It's a point function not a line function so do not be deceived.

John Mihaljevic: We are almost out of time, I did want to just squeeze in one specific question that we received on WAE, the questioner says, looking at Bloomberg data, the past five years free cash flow has been up and down, perhaps even negative in a couple of the years. Could you comment on the volatility in the free cash flow there?

Seng Chong Yeo: That's a good question. This is where I suppose the analyst team and myself decided to buy the stock, we had to address this idea of fluctuating earnings, reported earnings or fluctuating cash flow. The reality in life, whether you are an oceanographer studying natural phenomena in the seas and oceans, or whether you are a biologist or medical doctor studying human hair growth, the reality is that tides do ebb and flow, even hair growth nail growth on your fingernails, these do ebb and flow, wax and wane. The reality of the natural world which we live is that nothing is a steady or constant. There is undulation in the natural terrain. Similarly, if we were to study real businesses, Asia in most cases there are ups and downs. The key question that we as analysts have to address is whether we better off today compared to a point of



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CIO, Yeoman Capital Management

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time in the past; or are we going to be better off in the future as compared with today. All the jiggles between now and then we should try to disregard or ignore.