



**Holland Views: Jardine Strategic/Matheson (\$33/\$62) – Price: £13.85;  
MCap: £1.8bn**

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## **‘If your gonna do it, do it right’**

### [Dear Mr Keswick](#)

We are long term-oriented value investors and researchers. We are happy to be aligned with trusted owner-managers that take a longer term (even a ‘very’ long term) view. We are more interested in the quality of assets and their ability to grow their intrinsic value at a good rate than we are in obsessing over corporate governance. We are also more than happy to invest in well-run businesses when markets may be less than enamoured with them due to shorter term concerns.

All of these ideas originally brought us to the quality of underlying operations and the undervaluation of which we found when researching the Jardine Strategic and Matheson groups a year or two back.

Today we applaud your announced intention to simplify the structure of these groups. We are sure there will be numerous internal benefits to this change and externally we expect investors will now better see the quality of the underlying assets that you control. Indeed, in enabling the Jardine Matheson valuation to now be summarised into a simple, single table (Fig.1) is a huge leap forward. Well done. However (and with due respect)...

### [If you gonna do it, do it right](#)

Whilst we, like other investors, are pleased to see the simplification of the group structure, we feel it is important today for the company to do the right thing by *minority* Jardine Strategic shareholders. Whilst the cash-only offer you have made might seem generous to some observers, those that know these entities and the assets they control have ‘Sum of Parts’ (SOTP) valuations well in excess of the \$33 offered figure. Indeed, our own SOTP, which is attached to this email suggests a range of values between \$41 and \$49 for Jardine Strategic shareholders. Furthermore, c.75% of these valuations are derived from publicly tradable securities at today's, in some cases still depressed, prices.

As such you have placed us in a position where we feel we need to ask the Jardine Strategic independent directors to explain why a \$33 cash price has been agreed and is seen as fair. In the case of a tender-offer or buy back, such a premium to market valuation might seem reasonable, but under those transactions’ investors have the option not to sell. In a compulsory buy-out they do not. Alternately, **the group could (and should have) offer a stock alternative in Jardine Matheson shares.**

With the family shareholding in the new entity rising to c.43% post the deal, you will have a long path ahead of ongoing outside shareholder relationships with other Jardine Matheson holders. Opportunistically purchasing one’s own shares in the market when they are depressed is a reasonable course of action for any company (indeed we applaud the action if they trade at a big discount to intrinsic value). However, such actions always allow any shareholder that wishes to continue to participate in a longer-term partnership with the company to do so by not selling. With the timeframe that your business and family has I would hope you appreciate those of similar mindset, i.e. who also wish to invest for the very long term.

As such please enable those invested alongside you in Jardine Strategic to continue to be able to do so by swiftly offering a stock alternative into Jardine Matheson shares. Whilst that might mean your ongoing holding does not rise as much as maybe you had hoped, you would instead still be able to purchase Matheson shares in the open market should you chose to do so.

To not respond to this request we feel will perhaps earn you a label you maybe do not desire and likely do not deserve. That of a management and family who seeks to only use minority shareholders for their own best interests. Having researched a number of the companies you control in recent years (see attached pieces on Jardine Strategic and Mandarin Oriental) we do not believe this to be the case and instead assume this is an oversight or perhaps ill thought through advice you may have received.

Investors will be rightly encouraged by the restructuring you have presented today. We will watch with interest whether the scale of future discounts to intrinsic value are affected by your actions in regard to Jardine Strategic minority holders in the coming weeks.

Yours constructively

Holland Advisors

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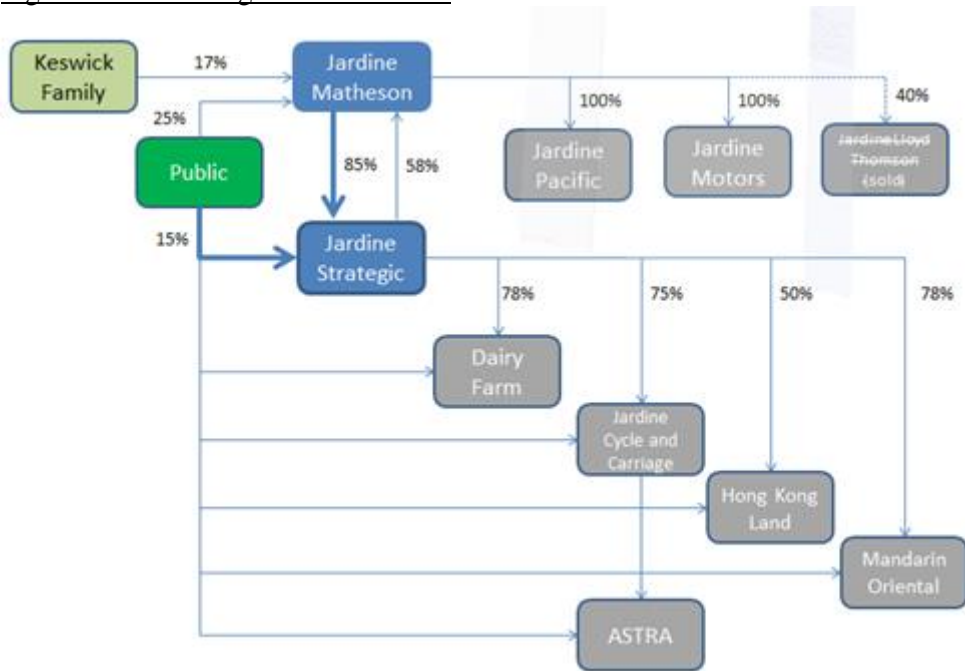
Due to the quality of the businesses, you control and the undervaluation of many of them at current market prices we remain “buyers” of **Jardine Matheson and Mandarin Oriental**. A new, thankfully simpler Jardine Matheson Sum of Parts is shown below. As is a shareholding chart that is about to get a lot simpler

Fig. 1: Jardine Matheson post-deal *simplified* NAV and Market Cap

<b>New Structure</b>			
US\$			
<u>100% Jardine Strategic</u>			
Hongkong Land (50%)	5,797		
Dairy Farm (78%)	4,956	Jardine Matheson share price	US\$62
Mandarin Oriental (78%)	1,664	# shares post deal (m)	293
Jardine Cycle & Carriage (75%)	4,931	<b>M Cap</b>	<b>18,166</b>
Zhongsheng (20%)	2,504	upside to NAV	37%
<u>Jardine Matheson stakes</u>			
Jardine Pacific (100%)	2,460	c15x earnings. ie too low?	
Jardine Motors Group (100%)	2,625	c15x earnings. ie too low?	
<b>Gross Asset Val GAV</b>	<b>24,936</b>		
<u>Holding Co Net Debt????</u>	0	\$2.7bn at 31/12/20 less c\$2.7bn spent on JS shares	
<u>capitalised corp overheads</u>	0		
<b>NAV</b>	<b>24,936</b>		

Source: Holland Advisors

Fig.2: Jardine Strategic – old structure



Source: Holland Advisors

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