



Holland Views – Jardine Strategic – Price: \$32, Mcap: \$18.2bn

Are you a value investor? Really?

What if we could offer you a share which trades at 0.56x the NAV, and that NAV grows and the NAV was also super prudently priced – a double discount as it were. Would that interest you?

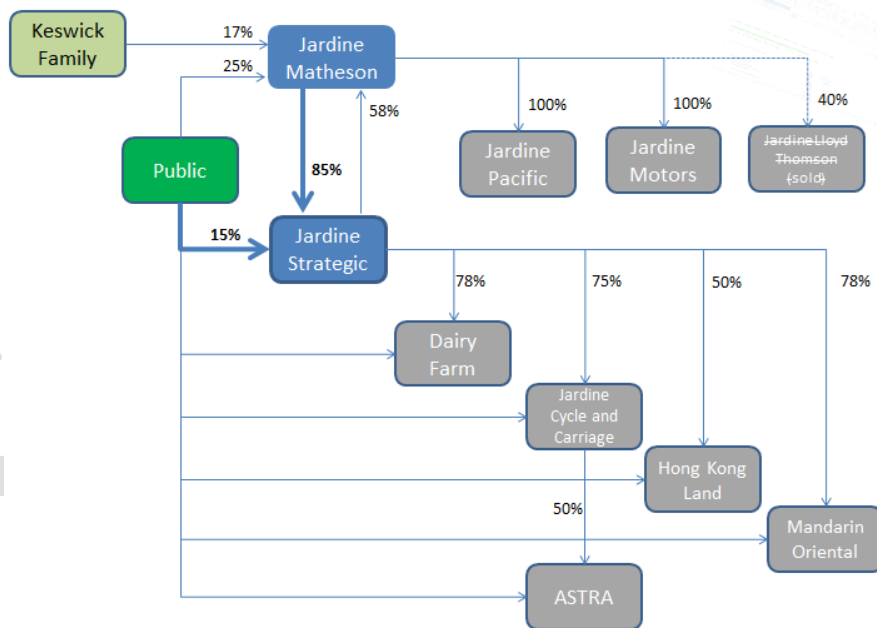
- Regular readers will know of our longstanding work on investment holding company Exor which has aged well. Today we present another family-run investment holding company which has much similarity to Exor. It looks to us to offer significant value, just as Exor did in 2013 and 2015, for those prepared to do the work.
- Now, whilst we like the Margin of Safety such shares can offer vs. their Sum of Parts, we also realise the folly of expecting longstanding discounts to NAV to suddenly disappear just because you own the shares! So, what we seek in investment holding company ideas is for them to ideally have a combination of businesses that are high-quality growing compounders and then also a low price vs. a prudent valuation (in Exor's case in 2015, this was the case with Fiat, Ferrari, CNH et al).
- The business we highlight today is Jardine Strategic. A longstanding investment holding company under the tutelage of the Keswick family for five generations.
- Caveat out of the way first: this is an esoteric company and stock. It is a British company incorporated in Bermuda, listed in Singapore but headquartered in Hong Kong. This messiness precludes the stock's inclusion in many MSCI indices. It also has an opaque corporate structure with cross ownership in its sister company Jardine Matheson which means that its effective share count is actually half the headline figure. Getting this latter point right is key to understanding the value on offer.
- That out of the way, this is above-all a very prudently run conglomerate with minimal debt (at all levels) and – importantly – a portfolio of rare assets and businesses which are publicly listed. Whilst the parent sits at an attractive discount to an easy to calculate Sum of Parts (NAV), we think several of these individual holdings are in turn very prudently valued versus their asset backing and earnings power also.
- Simplistically, purchasers of Jardine Strategic shares today get exposure to Hong Kong super prime real estate (valued at 0.33x tangible book), an exceptional south-east Asian food retailer (whose returns are reminiscent of Tesco in its heyday), Mandarin Oriental (also at c.0.3x its Property value) and finally a top-notch Indonesian industrials business (valued at c.12x PE). **But you have upside of c.63% to get to these valuations!**
- We confess that (newly promoted to Chairman) Ben Keswick, is to us, something of an unknown quantity compared to say John Elkann. Ben Keswick has maintained a far lower profile than the aforementioned Elkann (who himself is hardly a headline grabber), and this limits our ability to assess his future stewardship of the assets to the same degree. That said, the combination of the value on offer and a strong historical financial track record offsets this risk to a considerable degree.

How far will you go for value?

With a largely ‘developed markets’ list of clients there is a chance that few of our readers will spend sufficient time on an idea such as this. Indeed for us, as an exercise in Equity Research return on capital (i.e. time) this will not be our most profitable idea. That said, we feel it is still a large part of our role to get our clients to look in different places in the search for value and superior longer term returns, particularly when so many predictable companies are priced for perfection these days.

In fact, this is the second time we have completed this exercise, having looked closely at the Jardine conglomerate and its large discount in 2015, but we never published our work. The discount duly narrowed and the shares rose from \$27 to c.\$44. Weaker Asian markets and protests in Hong Kong have brought the shares down once again. This time to record high discount. We suspect that readers of this piece will either be very interested or not at all. We thus explain our thesis by way of a number of charts and models we have built to better understand the underlying companies. The crucial ones are our, and Jardine’s own, illustration of the Sum of Parts work laid out in Figures 3 and 4. These show our calculation of the company’s intrinsic value and that calculated by the company. However, before looking at these investors must accept that there is complexity in the holding structure of the parent companies, i.e., Jardine Matheson and Strategic. This leads to two important outcomes. Firstly, that the number of shares in issue for Jardine Strategic must be altered to reflect this cross holding. The second being that there are two possible ways to calculate value as a result.

Fig.1 Jardine Group structure



Source: Holland Advisors

To view the remainder of this in-depth report, please contact Andrew Hollingworth, Andrew@hollandadvisors.co.uk for a complete PDF copy.

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