HollAnd Advisors

Holland Views: Jardine Strategic ($25) BUY, Exor €55) BUY

Let's be Greedy, while others…

Last week we updated our valuation work on Berkshire Hathaway. Today we do the same for Exor and Jardine. At this juncture and these prices, we think all three of these businesses safe, yet offering compelling upside to equity investors.

Each clearly has intrinsic value upside in the growth their operations are likely to deliver longer term, either as assets value grow (Asian property values), businesses compound (Berkshire) or recover from their current depressed valuations (Fiat + CNH inside Exor). However, what is tempting for us is the combination of the large discounts we are being offered to buy these collections of assets vs. their quoted parts, but also the lower risk these parental companies possess.

Our updated Sums of Parts attached shows upside of **47% for Exor and 70% for Jardine Strategic**. We repeat these are just the upsides to their quoted parts/cash today. These do not assume any recovery in values or future growth. Perhaps just as important in the markets we now all find ourselves in they offer something else that we are getting something for free – less risk. Whilst in part this comes from the Margin of Safety that such discounts bring, mostly it comes from having an aligned interest with owner managers who have super-prudent views towards leverage.

- This we highlighted on Friday with 23% of Berkshire's value coming from cash
- In Exor's $22bn SOTP, $9bn is contributed just from the sale price tag of Partner Re, which will be all-cash
- The rest of the Exor SOTP is the listed holdings of Fiat/CNH and Ferrari, all at today's prices

Jardine Strategic – Investing after the tidal wave has passed, not ahead of it arriving.
We re-attach our work from last year on Jardine. Also attached is our Sum of Parts calculation for it (updated for today's prices). With the Jardine Strategic priced now at **$25 the upside to the Listed Sum of Parts is 70%.**

For those wanting to know more we recommend a read of the Hong Kong Land and Dairy Farm year end results which were released last week.
https://www.hkland.com/data/media_releases/investor_relations/2020/hll_20200306.pdf
https://www.dairyfarmgroup.com/en-US/Investors/Financial-Reports

These give a little more insight into the current trading at these companies, which has clearly faced a double headwind of Hong Kong disturbance and Covid-19. However, they also provide insights into the longer term thinking behind each company. At Hong Kong Land in particular we note:

- That the company carries a Balance Sheet Value of its properties of US$37.8bn. With 83% of this based in prime Hong Kong many might question this figure. However, in an investment world that is all consumed by the spectre of zero interest rates it must be noted that this value is reached using a range of 3-4.5% discount rates off of current rents.

- More important still is the debt that is carried against that $38bn Asset value. It is a mere $3.5bn
- Were its Prime Hong Kong property values to be revalued aggressively down to give a new HK Land NAV of say $20bn – this would still give a NAV that is double the carrying value of Hong Kong Land in the SOTP calculation we attach, i.e. its current Market Cap is $10bn vs. NAV of $38bn. As the saying goes, '*it is not that we like bear Markets, but we like the prices they bring.*'

What do you seek in an investment?

Well in addition to a safe balance sheet, good quality assets that are prudently financed most of us also like to know that we are investing alongside aligned managers. In Jardine, Exor and Berkshire that is clearly true. But we also want to see that they perhaps have contrarian views, investing in businesses or markets when others are not. This contrarian approach is evident in Berkshire's cash pile and its stakes in banks and airlines. Maybe it will also soon be evident in Exor too, with it due to have a huge cash pile post it's Partner Re sale.

In this vein we thought the link to an RNS put out by Hong Kong Land two weeks ago was interesting. On Feb 20th they bought from the Chinese Government a $4.4bn plot in central Shanghai for development.
https://www.hkland.com/data/media_releases/investor_relations/2020/hll_20200220.pdf

These businesses are all run by aligned, super prudent families/owner managers. That they have not been favoured by Mr Market in recent years is a function of their contrarian approach as collectively they are long of Autos, Banks, Airlines, Hong Kong property and cash! That we are being offered great value to invest alongside them in their prudently run parent entities we think is an offer we should not be refusing. Additionally, while many in Europe and the US are trying to decide the value of assets just as an economic tidal wave is seemingly about to hit, the worst for a company like Jardine must surely be behind it.

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