THE CASE STUDIES

The Search For High Growth Stocks In Asia
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The search for stocks with high capital gains

This report is divided into 3 different case studies, each situated at different geographical location and listed on different exchanges. They also deal with different customers and operate in different industries.

What's so special about these companies is that we are able to double or triple our money investing in them. The idea of these case studies are not so much about quick gains, but rather, spotting a systematic approach to getting consistent results.

We cover more about our approach in our Investment Quadrant course, and you can check out the details of the training here: http://investmentQuadrant.com

Before we even begin, it is important to understand that as long as you invest, you are putting your capital at risk - regardless of how good a company is.

Risk however, can be controlled and reduced through various layers of sound analysis and proper judgment calls.

As investors, what we want to do is to always protect our downside, and try to reduce our risk exposure as much as possible. The less risk we are exposed to, the higher our chances of winning.

Some basic principles that affect risk includes

1) The Fundamentals of the Company

How sound is the business? How leveraged is the company? What are their moats, their growth, and are they consistent in their performance.

Investing in a good, fundamentally strong company reduces your risk. At least you know your money is in good hands.
2) The Valuation of the Company

Obviously, the more you paid for a company, the more risk you are exposed to. All things equal, we try as much as possible not to overpay for our investment.

What if the investment doesn't pan out the way you imagine?
What if growth comes to a halt?
Conversely, the lesser you pay for a company, the less risk you are exposed to.

3) Diversification of your Portfolio.

The more you diversify, the less risk you are exposed to - Should a stock goes horribly wrong, you won't get wiped out... at least.

Then again, being overly diverse also curbs your growth. ie: you will need to find 20 stocks that give you 100% to actually give you 100% return on your portfolio...

Therefore, it is always good to balance, based on your age, goals and risk appetite - ie, 5 - 10 stocks instead of 30 - 40. A portfolio of 10 good companies bought at wonderful prices can do wonders to your growing your wealth.

The better you get at managing risk, the better you'll get at making profitable decisions.

Remember, high risk doesn't equate to high reward and low risk doesn't equate to low returns.

Think of it this way...

If you get a good business (low risk), which is growing at break neck speed (which you are about to see in the following case studies), buy them at great prices (low risk), you are putting yourself in a very favorable position to reap high returns.

Thus, Low Risk, High Reward.

Yes, while it is always good to search for the 'next big thing', remember to always back it up with proper fundamentals... and NOT the 'fear-of-missing-out'.

With that said,

let us start with our case studies.
BreadTalk Group

**BreadTalk Group Limited** is a listed Singaporean bakery, founded in July 2000. It operates a chain of retail outlets through its subsidiary BreadTalk Pte Ltd, selling a wide variety of bread, cakes, buns and pastries.

Apart from Bread Talk (bakeries), they also operate eatery outlets such as Food Republic, Ding Tai Fung, RamenPlay, Toast Box, The Icing Room, Carl’s Jr (China).

Their business has been expanded regionally, spanning from Singapore to Malaysia, Indonesia, Thailand, Philippines, Vietnam, Sri Lanka, Hong Kong, the People's Republic of China, Oman, Kuwait, Saudi Arabia, Jordan, Bahrain, India and Cambodia.

They are in the Food and Beverage (F&B) business, operating by serving the need of everyday consumers – ie, Bread, local delights, Chinese & Japanese cuisines.

**The Key To BreadTalk's Growth**

Instead of hording and distributing cash, Breadtalk uses it's capital and resources to expand overseas whenever they have the chance.

If you happen to visit some of the malls in Thailand and Indonesia in one of your shopping getaways, be observant and take a look around... you will always find that they have some moderately good human traffic in their most of their outlets.
In the ideal scenario, whenever the company starts recording record breaking revenue and profits, the share price will follow suit.

And if you were to track Breadtalk's growth, you will notice that they have been growing steadily through the years ever since their listing in 2003.

<table>
<thead>
<tr>
<th>Year</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue (SGD million)</td>
<td>$95.2</td>
<td>$123.6</td>
<td>$156.6</td>
<td>$212.2</td>
<td>$246.6</td>
<td>$302.9</td>
<td>$365.9</td>
<td>$447.3</td>
<td>$536.5</td>
</tr>
<tr>
<td>Profit After Tax (SGD million)</td>
<td>$1.8</td>
<td>$5.3</td>
<td>$8.4</td>
<td>$8.4</td>
<td>$11.6</td>
<td>$11.2</td>
<td>$11.8</td>
<td>$13.6</td>
<td>$16.1</td>
</tr>
</tbody>
</table>

Their revenue and profit growth can be attribute to the speed and the way they expand their business regionally. To illustrate this growth, I want to bring to your attention on just how fast Breadtalk has been growing for the last couple of years...

Within 10 short years, Breadtalk has grown from 23 outlets to more than 737.

That's a ridiculous 3,104% increase in just 10 years...

With every new outlet opened, it adds to both their top and bottom line.

So... how is Breadtalk able to grow and expand at such break neck speed?

Well, this has everything to do with their healthy and ever growing cash flow prowess.

To further illustrate this, I want to bring up another company that has been focusing on growth... using an almost similar approach to expanding their business.

AMAZON.com

Amazon's CEO, Jeff Bezos, has publicly stated that he doesn’t care about profit margins.

“It's the absolute dollar free cash flow per share that you want to maximize. If you can do that by lowering margins, we would do that. Free cash flow, that's something investors can spend,”

In Bezos' view, Amazon.com doesn’t need to increase its profit margin, what's important is that Amazon.com maximizes its free cash flow.

Since Breadtalk operates in an extremely competitive F&B market, it is not surprising to see the company's net profit margin at less than 5% since it’s listing.

So, instead of focusing on how to increase it's margins, Breadtalk focuses on growing operating cash flow that leads to higher free cash flow per share.
The Investment Quadrant - Case Studies

A quick look at the chart here shows that the company’s operating cash flow has more than tripled from $15.3 million in 2005 to $70 million in 2013.

With a steady stream of higher free cash flow (except for 2012 – purchase of new HQ), BreadTalk is able to grow and expand its business faster than an average F&B company.

The more BreadTalk expand, the higher the revenue and profit it will be able to generate.

Key Consideration

From what we've seen thus far, we know that back then, BreadTalk is a business operating and expanding at break neck speed.

However, when it comes to investing, things doesn’t always turn out the way you wanted.

In BreadTalk's case, the share price had already gone for a good run when we started analyzing it back in 2010. It was then trading at above $0.70, which in our view, was thereabout at fair value.

As mentioned in the beginning, Valuation has a lot to do with risk.

The cheaper you purchase the business, the lesser the risk you will be taking.

We wanted to have a more comfortable margin of safety before buying BreadTalk and therefore, decided to wait if there was ever such opportunity.

2 years later, in mid-2012, the stock market was hit by the Euro Debt Crisis, sending BreadTalk’s share price down to $0.49.

This presents a very good opportunity for us to purchase BreadTalk at a bargain.

Why…?

Remember we were talking about BreadTalk’s ability to generate Cash Flow?

At $0.49, BreadTalk was then **priced four times below operating cash flow**!

Yup, at $0.49, it was relatively cheap for us to get a piece of this high growth company.

And true enough, BreadTalk went on to record more earnings over the years and as of today, it's share price is $1.92 - (291% ROI exc dividends) - or more than 4x our money if you inc the dividends.

Yup, **we are still holding on to BreadTalk** and we didn't sell when they hit $1.50 or $1 or $1.30 last year.... because because we know exactly just how much it's worth.

Knowing the valuation allows you to make better, smarter investment decisions.
Hartalega Holdings

Hartalega Holdings BHD is a listed Malaysia company that manufactures and sell gloves. It is also the world’s largest producer of nitrile gloves, producing over 14 billion gloves a year.

Gloves has wide range of use, from surgery to handling blood / urine samples to laboratory testing… and Hartalega business has been expanded globally, spanning from continents such as North America to Europe to Asia.

In fact, you may or may not have noticed, but those gloves that you’ve seen in the hospitals and clinics, they are likely to be the ones produced by Hartalega.

The Key To Hartalega's Growth

There are always some growth elements that allows a company to go from strength to strength.

Some can be short-term, and some, long term.

For Breadtalk, it was their ability to generate strong, healthy cash flows that allowed them to expand and open more outlets regionally.
The Investment Quadrant - Case Studies

For Hartalega, it was a demand shift.

Hartalega was the inventor of the world’s first lightweight Nitrile glove back in 2002. This was an important milestone for the business because this invention of lightweight nitrile causes the shift away from the traditionally latex all over the globe.

Don’t get us wrong, because fact is, there is still a strong market for latex rubber, but nitrile itself has created it’s own market and has in fact, replaced some traditional usage for latex rubber gloves.

One clear example is the medical industry.

Traditionally, medical gloves are made from latex rubber. However, gloves made of latex aren’t the best possible choice for use in hospital and clinics as 6% of the general population are allergic to latex.

To counter these problem, the medical industry is switching from latex to nitrile gloves, which are free from latex allergens.

As the original inventor, it gives Hartalega a huge advantage.

Being the first mover, Hartalega was able to push and capture a large market share for the demand of lightweight nitrile while the rest of the world are still producing latex.

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue (MYR million)</td>
<td>443.2</td>
<td>571.9</td>
<td>734.9</td>
<td>931.1</td>
<td>1032.0</td>
<td>1107.2</td>
</tr>
<tr>
<td>Profit After Tax (MYR million)</td>
<td>$84.5</td>
<td>$143.2</td>
<td>$190.2</td>
<td>$201.6</td>
<td>$235.0</td>
<td>$233.7</td>
</tr>
</tbody>
</table>

And as the demand for nitrile increases, it also helped push both the top and bottom line of Hartalega.

From the figures above, it is easily noticeable that Hartalega’s revenue and profit has been on a tear since 2009, experiencing a double digit growth for the years to follow.

And more often than not, when the earnings of a company starts breaking record every single year, the share price is very likely to follow suit.

Now at this point, we want to point out the fact that Hartalega started the whole nitrile stuff back in 2002. It is important to note that after inventing the gloves, they will still need to push and convince the market to pick up the concept of why nitrile. As such, it will take some time before such demand is realized.
The Investment Quadrant - Case Studies

Yes, it was a risk because the whole nitrile may or may not have work out.

This is also why, as investors, we want to see if the concept or “story” does pan out before putting our money in even if it is a good company (Risk management).

If you were to take a look at the number of gloves sold by Hartalega, you will know that this is no longer a ‘story’, but something that is already happening.

<table>
<thead>
<tr>
<th>Year</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Gloves Sold (millions)</td>
<td>732</td>
<td>1,482</td>
<td>3,077</td>
<td>4,348</td>
<td>5,947</td>
<td>7,752</td>
</tr>
</tbody>
</table>

To understand how the market works, one must understand that when it comes to disposable commodity items such as rubber gloves, the market doesn’t see the need to fixate on a particular brand.

As consumers, we are more likely to pick the ones with the best pricing… as long as the reliability is not compromise.

Over the years, while Hartalega was pitching and creating that demand, the company has also been improving their process to make production more effective.

As such, when the demand for nitrile surge and the world is trying to play catch up, Hartalega was already leading with their technology and is able to produce greater volume at better margins.

Here are 2 points to note:

Greater volumes = ability to meet more demands

Greater margins = ability to command better pricing

To understand this better, let us take a look at the difference in margin among the different peers of the industry...

<table>
<thead>
<tr>
<th></th>
<th>FY2011</th>
<th>Gross Profit</th>
<th>Net Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hartalega</td>
<td>36%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>Supermax</td>
<td>33%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>River Stone</td>
<td>29%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Top Glove</td>
<td>21%</td>
<td>12%</td>
<td></td>
</tr>
</tbody>
</table>

As we’ve mentioned earlier, consumers are more likely to pick the ones with better pricing - especially if its a commodity product and the quality is not jeopardized.

So in Hartalega’s case, they have the ability to out-price their competitors in the market and still be profitable.
With greater volumes, they are able to also capture more market share throughout the years to come while the rest of the world is still trying to figure out the whole nitrile game. Both volume and margin have worked very well in Hartalega’s favour.

**Key Consideration**

“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price…”

When we started analyzing Hartalega back in 2011, it was trading at 13 Times P/E.

At 13 Times P/E, it was, in our opinion, pretty much at fair value.

As Warren Buffett nicely put it, it is always better to buy a wonderful company at fair price.

Before the boom of nitrile, Hartalega was already one of the top companies producing rubber gloves in the market. In fact, the quality of their latex gloves are known to be the “gold standard” in terms of reliability and consistency.

At that point, the demand for nitrile keeps increasing...

The fact that Hartalega was then the market leader in nitrile and was also experiencing stellar, double digit growth every year, we felt that there is more upside than downside to buy at current value.

We entered at about MYR 2.3 and eventually sold it at about MYR 7 – (204.3% in ROI).

**We did however, increase our stakes along the way to increase our profits.

Remember, Capital plays an important part in increasing your pfoits, especially if you found a good company and know the value of the company.

If there are still a lot of UPSIDE for the company, and it has yet to hit it's intrinsic value, getting more is always a good thing.

Here’s a quick example of ROI vs Profits:

75% ROI of $100,000 = $75,000
204.3% ROI of $10,000 = $20,400

It's clear which is better.
Major Cineplex Group

**Major Cineplex Group** is Thailand’s leading lifestyle entertainment company. Listed on SET, its core businesses include cinemas, bowling alleys, karaoke studios, and ice skating rinks. They’re also in media advertising and film production & distribution.

Major is the largest cinema operator in the country and hold a commanding 80% market share of this segment in Bangkok alone.

If you love watching movies, you’ll probably have an idea of just how lucrative this cinema business is.

**The Key To Major's Growth**

As technology and lifestyles evolve and improve in Thailand, so does the habits and spending of consumers. With over 70 million in head count, Thailand is considerably underserved in this segment of the entertainment market.

Given the fact that movie goers has been increasing throughout the years and watching movie has since became one of the favorite past time for millennials, Major has positioned itself nicely to capture this chunk of the market.

To increase their top line and earnings, there is one thing Major needs to do focus on from it’s core business - Selling more seats.

For that to happen, it is only right that they provide more access point for movie goers by opening more cinema branches across the various malls.

As such, it is no surprise that one of Major’s key growth strategy is to open 20 – 30 new screens each and every year... to serve the ever growing market.
Here is a look at the number of screens that Major operates:

<table>
<thead>
<tr>
<th>Year</th>
<th>Branch</th>
<th>Screens</th>
<th>Seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>47</td>
<td>354</td>
<td>88,250</td>
</tr>
<tr>
<td>2010</td>
<td>50</td>
<td>366</td>
<td>88,150</td>
</tr>
<tr>
<td>2011</td>
<td>53</td>
<td>383</td>
<td>93,800</td>
</tr>
<tr>
<td>2012</td>
<td>56</td>
<td>413</td>
<td>99,050</td>
</tr>
<tr>
<td>2013</td>
<td>68</td>
<td>479</td>
<td>114,790</td>
</tr>
</tbody>
</table>

As the new branches and screens opened, Major is able to sell more tickets to movie goers, increasing both their top and bottom line.

For Major, a key advantage for them is that the nature it’s business allows it to generate very healthy cash flow for the company.

With healthy cash flows, they can then expand their cinema business quickly to meet the demand.

### Key Consideration

When we started looking at Major back in 2014, Major was trading at THB 18 per share, which was about 12 times price to cash flow.

At that valuation, Major was fair value.

There are a few things that strengthen our resolve to take a stake in this company.

First, Major is the market leader in cinema entertainment back in Thailand, owning more than 80% market share in Bangkok alone. The share price took a dip due to the political unrest - which is temporary.

The political situation in Thailand does not affect the cinema business as movie goers still flood the Cineplex every single day.

Second, the company was also giving a dividend yield of 5.6%, which was pretty decent in any consideration for a good, cash generating business that is still has plenty of room for expansion.

Third, Major is still growing within Bangkok and plans to expand to regions outside of Bangkok.

With plenty of upsides, we decide to purchase the stock at THB 18 - Fair value.

A year later, the stock recorded higher revenue and earnings, pushing the share price to THB 36 – (a **100% ROI** from our purchase price).
Summary

The lessons and principles are always the same.
Using the same principles, here's the results of our more recent analysis:

Premier Marketing - 54.8% - 2016
Paldini - 116.7% - 2017
Greatview - 62.4% - 2016

etc

To profit from the stock market, it is important that you know how to assess a company, it's growth and the risk that comes with it.

In addition to that, as much as possible, you do not want to over pay for something even if it has a stellar story to sell. You want to go in with as little risk as you possibly can.

Stories ≠ Results

Cover your downside as much as possible, and let the upside take care of itself.

For a complete step-by-step plan to sift out High ROI Stocks before they happen, check out The Investment Quadrant and see if it's are a right fit for you

http://InvestmentQuadrant.com