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Unique Approach

It can be difficult to draw significant distinctions between the Hong Kong-based real estate companies that from time to time capture value investors' fancy. Amit Wadhwaney is doing just that when it comes to Sino Land.

During his tenure managing international portfolios for Third Avenue Management, Amit Wadhwaney rarely saw fit to own Hong Kong-based real estate companies, despite the fact that they were often important holdings in portfolios managed elsewhere within the firm. "I understood the thesis – a proxy on China, trading sometimes at big discounts to net asset value – but they never really fit with what I was doing," he says.

Now at Moerus Capital Management, which he co-founded in September with two former Third Avenue colleagues, Wadhwaney today says one of his favorite ideas is none other than a Hong Kong-based real estate company, Sino Land. That's not because his approach has changed, he says, but because Sino Land's has.

The company's business mix is not particularly unique. In commercial real estate it owns and operates a highly profitable Hong Kong portfolio of strip malls, typically anchored by a supermarket or convenience store and with tenants such as dry cleaners, florists and barbershops. It is also a significant developer of residential properties, with mostly mid- to upper-middle-market developments in suburban Hong Kong as well as in Fuzhou and Chengdu in China. Its hotel assets include full ownership of the ultra-high-end Fullerton in Singapore, as well stakes in the Conrad Hong Kong and The Westin Sydney.

What is unique is the company's capital management. Unprecedented among its peers, Sino Land has been hoarding cash by selling residential properties into what Wadhwaney considers a "pretty bubbly" real estate market and not replenishing its land bank for future projects. From a net debt position of nearly HK$15 billion in 2010, the balance sheet now sports net cash of nearly HK$15 billion.

While management has been mum about its intentions with the cash, he sees positive optionality in it either sitting tight and waiting for Hong Kong and Chinese real estate prices to retreat, or in building out its hotel business using the highly regarded Fullerton brand.

While neither approach is likely to pay off right away, patience is made easier given the discount to net asset value at which the shares trade, says Moerus Capital's Michael Campagna. He haircuts the company's stated book value by using actual revenues generated by the commercial

INVESTMENT SNAPSHOT

Sino Land
(Hong Kong: 83:HK)

Business: Holding company engaged in the development and management of residential, office, retail and hotel properties located primarily in Hong Kong and China.

Share Information
(@11/27/15, Exchange Rate: $1 = HK$7.751):

Price	**HK$11.34**
52-Week Range	HK$10.42 – HK$14.20
Dividend Yield	4.4%
Market Cap	HK$68.99 billion

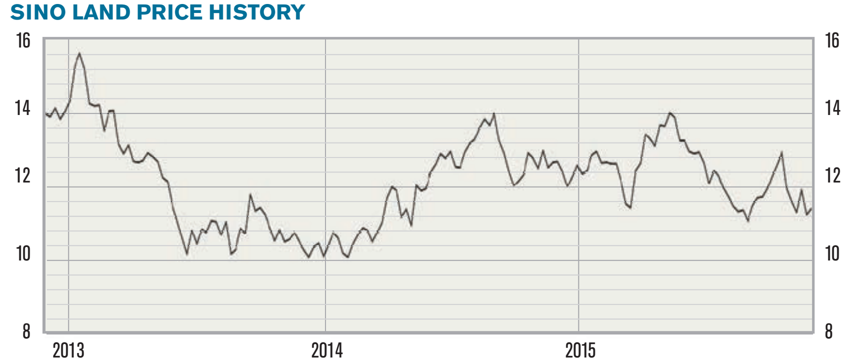
Financials (FY ending 6/30):

Revenue	HK$21.84 billion
Net Profit Margin	24.3%
Book Value/Share	HK$19.48

Valuation Metrics
(@11/27/15):

	83:HK	S&P 500
P/E (TTM)	7.3	23.2

SINO LAND PRICE HISTORY



THE BOTTOM LINE

The company has managed its balance sheet from HK$15 billion in net debt five years ago to HK$15 billion in net cash today, providing it with long-term upside optionality, says Amit Wadhwaney. Patience is made easier, he says, by the fact that what he considers a conservative estimate of current net asset value is 45% above today's share price.

Sources: Company reports, other publicly available information properties, not market rents, and by using cap rates on those revenues of 7-8%, more in line with long-term averages than the 4-5% being paid for properties today. He values the residential-development properties at roughly 1.1x their cost base, far below values historically achieved. He uses an 8x EBITDA multiple for the hotels, half the rate at which comparable properties are trading hands. The result: estimated per-share NAV of HK$16.50, 45% above the HK$11.30 market price.

"If nothing happens we're still buying a healthy business at a steep discount to a conservatively derived NAV that is 20% cash," says Campagna. "The stock may go down before it goes up, but good things should eventually come from that." VII

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