Looking for one of Australia's best performing listed companies?

Not often do you find a company that has **compounded its NTA per share at over 20%pa for near on 30 years.** This company had net assets of less than $3m back at listing in 1988 and now has net assets of around $1bn...yes that's $1bn...with almost no new capital. Not only has it Buffett-like performance but it trades at a significant discount to book and our assessed net tangible assets.

So which company is it? **Largely unknown property developer, United Overseas Australia LTD (ASX: UOS).**
The company was founded by two Australian educated, Malaysian born engineers. They raised $2.62m of equity on the Perth exchange (they attended university in Perth) and called it United Overseas Securities LTD. CS Kong and Pak Lim (Jim) Kong (not related) bought a small Asia based manufacturer, ran it and sold it several years later. In 1990 they started in property development in their home city of KL after identifying Malaysia as the most attractive market to launch in. After some modest capital raisings in 1990 it left the company with capital of

$5.6m. That was the last time UOS raised capital (except for a $16m raising to get secondary listing on SGX) and there has been 2 capital returns totaling $92m on top of the annual dividends. Overall, if you had invested $100 in the company's 1988 IPO, by now you would have collected about $1,600 in dividends and become an owner of shares with $4K of high quality NTA backing (a 16.1% cumulative annual growth for 27 years). If you had been even smarter and taken up the Dividend Reinvestment Plan, you would have ended up with $11,900 in capital returns and your share of NTA (a 19.4% CAGR for 27 years).
Over the many years, CS and Jim have built an impressive strategy, process and organisation that has the balance sheet to buy land, build and lease then hold or sell depending on the market.
The parent company, UOS is listed in both Australia and Singapore and has three assets:

1) A 68.49% interest in their listed property development arm (Bursa Malaysia: 5200). Current Market Value 0.48AUD$ per UOS share
2) A 46.22% interest in their Malaysian listed property trust (Bursa Malaysia: 5110). Current Market Value 0.26AUD$ per UOS share
3) 0.072 AUD$ per UOS share of hard assets, which sit in the parent (70% cash, 30% properties).

There is no debt in the group apart from that attached to specific assets in the trust which has net gearing of 35% (debt is non-recourse on the rest of UOS).

Total net tangible asset value is $AUD 946.7m or 81c per share. However, the UOS balance sheet (on an attributable basis) contains $431.5m of land and development properties at cost, and we believe at market it could be worth as much as $785m

If we add the assets of the parent and the listed holdings we get to a sum of the parts valuation of about $AUD952m or 81.2c per share. However, if we ascribe what we assess as fair value to the "inventory and properties at cost" we come to a rather attractive AUD$1.18bn or 101c p/s.
We have travelled to Malaysia, met management and visited some of the projects both of which impressed us.

Summary:
So does UOS pass the proprietary Harness Asset Management (HAM) Pineapple test (a stock that is ugly on the outside but has great value on the inside)? If we consider the 4 key components of our Pineapple test:

1) **Price is attractive.** The stock is cheap based upon historical earnings and trades at a substantial discount to NTA.

2) **Management is exceptional** in their area of focus and we can find no evidence of a lack of integrity. We don't necessarily agree with their practice of paying dividends when it would make more sense to buy back stock but that's a matter of perspective.
3) **Quality of business-mixed**. Property development is not an easy business to run well but it is very profitable when it is practiced by experts. It allows exceptional returns on equity but is somewhat cyclical. UOS has shown great poise through cycles in the past and has a cashed up balance sheet.
4) **Finally can we understand why the stock market doesn't like the stock?** Or at least, why it values it where it does? Yes! UOS has many attributes that Australian investors don't like that we are comfortable with. Its shares are illiquid, its operations are based in Malaysia, its dividends are unfranked, Management does no shareholder visitation or promotion, its core business is property development which can be risky and Asia has been on a tear for years and its fair to be a little concerned about the property cycle in KL.

   These are all valid reasons to avoid the stock in the short term but the compelling valuation and long term track record of the management team suggests to us that this will reward patient investors…did I mention that it may require patience? The 5% yield is a modest reward for our patience too but this Pineapple is likely to pay us more than that over the years ahead.
   Good invetsing,
   Nigel Littlewood
   30th June 2015

Note: Harness Asset Management Small Companies Value Fund owns shares in UOS (30th May 2015).
The above is no way is intended as financial advice.