



### **Harness Asset Management Update on Company Visits**

I've just returned from my second United Overseas Australia (ASX:UOS) Annual General Meeting in Kuala Lumpur where I stayed in their newest Hotel (The VE). I was fortunate enough to share the week with Tony Hansen (Eternal Growth Partners) and Fred Woollard (Samuel Terry Asset Management). Both are very bright, experienced and wise investors and human beings. Like me, they built their funds around: managing their own wealth, a flexible mandate and a fee structure that aligns the interests of investor with those of the manager. It seems extraordinary to me that so many businesses in finance are not structured to put clients' interests first. Tony and Fred have the values to support and justify their role as capital managers but also have sound track records too. I'm fortunate to have such good people to collaborate with.

2016 is my second visit to KL for the UOA AGM. Despite Buffett-like performance, this company doesn't attract a crowd to its AGM. I attended both the Malaysian listed UOADB AGM and the UOA AGM. UOADB is the Malaysian development arm of UOA which is listed in Malaysia and which UOA owns about 70% of. During our visit we availed ourselves of a KL map and our globally friendly Uber App and drove around a number of the UOA projects which are in various stages of development. Our general response was positive and we remain of the view that these guys are very good at what they do...you don't build a 30year track record like they have without being experts.

There was some talk of a softening in the residential market and management has adjusted to this situation by focusing on development projects that they intend on keeping and being very sensitive to market trends. The two show-condos we saw were very much on trend. On arriving at one significant 2300 unit project that is yet to launch we were greeted by a traditional Buddhist ceremony conducted to bring good fortune to the project. After quizzing the onsite sales manager we were pleasantly surprised to discover that the first of 3 towers was largely sold before the project was officially launched. These sales had consequently not been accounted for at this stage and we hope to see them in the current quarter's financial result.

The UOADB AGM was attended by about 100 shareholders. Amusingly, about 300 or so show up but leave after they have had their free food without attending the formalities. The meetings are quite brief but questions are welcomed.

The following day, the 3 of us attended the UOA AGM and were the only shareholders there. Despite having quite a few shareholders in Australia, no body else bothered making the journey. The formalities are brief but we then spent about an hour with Jimmy Kong the CEO, Kim the CFO and Allan Winduss the Australian based director. Overall our confidence in this company has been reinforced. It remains well cashed up (C \$100m in the bank), it's land bank is under valued on the balance sheet and underpins years of future developments and any weakness in the property market will be a long-term positive as UOA has capital to jump on bargains as they have before.

I'm confident that the project in Vietnam (its first outside Malaysia) has been well considered and researched. They have been visiting Vietnam for 10 years and feel it's about where Malaysia was 10 years ago.

### **Investment Summary:**

Every investment is a risk/reward scenario so lets just recap on this one.

- 1) It's well run. Management has a 30 year track record of growing assets at over 20% p/a. There are few companies you can find with this sort of long-term track record. Management gets a box tick.
- 2) Shareholder friendly. Managers are major shareholders, they don't pay themselves excessive salaries, culture is frugal and dividends are paid each year. Only downside here is that the board doesn't seem to care about where the shares trade. The focus is all on operations. Of course, this is the reason we have been able to buy into this stock so cheap.
- 3) It's CHEAP. To be able to buy a company with such an excellent long-term track record at almost half net tangible assets seems absurd but you can. The stock is not promoted by anyone in Australia, management don't do investor relations trips or presentations and at the moment, are not buying back stock.
- 4) Downside is provided by the obvious risks in property development and operating in Malaysia but the long-term positive trends of the company, the country and the margin for error provided by the share price suggests downside risk is low.

Many in our field of endeavour would rank this stock as a value trap that will always trade cheap due to a lack of share price catalysts.

While it is true that there don't appear to be any catalysts for a significant re-rating on the immediate horizon, this is a good company with very good management which, is trading very cheap. Should we neglect it simply because we don't know when or how the shares will rise? Many fund managers would say yes because they are short term focused and that's fine. This is why this style of stock gets forgotten but for a risk averse, absolute investor with patience, it

appeals to me. No matter how I look at it, I think the chance of permanent capital loss is very low and we are being paid to wait via our 6% dividend yield. The ongoing compounding of its assets underpins an expected investment return that will be most satisfactory....one day. I expect that at some stage, UOA will trade higher, patience can be tested in this business but if you ever get tired of waiting may I suggest a trip to KL to take an Uber supported sightseeing trip of the UOA portfolio.



One of UAS many projects.

The link below is to my previous article about UOS.

<http://harnessam.com.au/wp-content/uploads/2015/06/united-overseas-australia-july-2015.pdf>

### **RFM Poultry**

During most of last year we built a position in a small NSX listed company called RFM Poultry (NSX:RFP) between 79.5c and 90c. We ended up buying over 5% of this little one based on that fact **it was a pretty safe little chicken farm manager trading at a substantial discount to NTA and paying us a yield of around 12% fully franked** based on its quarterly fully franked dividend of 2.51c a share.

Yesterday, I flew to Griffith to visit a couple of the company's operations and get a better understanding of how things work.

I came away comfortable that the investment should remain in our portfolio and we will continue to receive dividends. With the share price now at \$1.09, the yield has compressed to 9.2%ff but not to the point where we would sell.





A typical chicken growing shed. The chickens have short lives but seem happy enough.

### **Clydesdale Bank**

We bought into Clydesdale (ASX:CYB) quite recently as a long term turnaround story based on our compelling view that it would be able to cut costs once unshackled from its NAB ownership. **CYB just reported a solid half year result and the market has started to buy the cost-out story. Our investment is showing very satisfactory gains.**

The portfolio continues to be held back by our two biggest positions (FSA and AWN) both which, are well run and trading cheap but again devoid of short term momentum. I expect both stocks will trade higher in the year ahead.

**Don't hesitate to call me to chat or to arrange a meeting.**

**Good investing,**

**Nigel Littlewood**

**31<sup>th</sup> May 2016**

Note: The Harness Asset Management Small Companies Value Fund owns shares in CYB, UOS and RFP.

The above in no way is intended as financial advice.

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