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MONEY MANAGER INTERVIEW

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Evaluate Research Ltd.

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Focusing on Undiscovered and Underfollowed Companies

SANDY MEHTA, EVALUATE RESEARCH LTD.

SANDY MEHTA is the Chief Executive Officer and Chief Investment Officer of Evaluate Research Ltd. He has over 30 years of investment experience and has previously founded investment adviser Value Investment Principals — HK/India — and hedge fund Acumen Capital Management in Boston. Mr. Mehta has previously been a portfolio manager for two 5 Star funds, a $15 billion flagship Global Equity Fund and $2 billion small-cap fund, at Putnam Investments and Wellington Management Co., both in Boston. He also has been the head of a global research team and incubated a $300 million small-cap fund at Putnam. He was the first analyst ever hired by legendary value manager John Rogers at Ariel Capital in Chicago, and also worked with Arnie Schneider and John Neff at Wellington. A Wharton MBA and a CFA, Mr. Mehta has been quoted extensively in the financial press globally.

SECTOR — GENERAL INVESTING

(AHQ549) TWST: Let's start, if you would, by introducing our readers to your current company with a snapshot of its history and its current business.

Mr. Mehta: Evaluate Research I founded four years ago, and we focus on high-quality detailed research reports of really undiscovered and underfollowed companies on a global basis. We have three offices, so that's Singapore, India and the U.S. We have a team of three analysts, and we have two marketing people.

And again, the focus is providing research coverage on companies that are otherwise being ignored by Wall Street and the bulge bracket brokerage firms. Our firm has grown well over the last four years, and with some of the secular trends that are happening globally — where the asset management companies are under pressure because of indexation and lower fees, and then the brokerage firms are under pressure because of MiFID II, and you're seeing analysts get laid off — we think a firm like Evaluate Research really provides a valuable service to the investors and the companies as well.

Highlights

Sandy Mehta discusses Evaluate Research Ltd. Mr. Mehta creates detailed research reports of undiscovered and underfollowed companies. He says the firm is the only one covering 80% of their companies. According to Mr. Mehta, many of the companies are growing and have attractive valuations. Geographically, he is seeing more ideas in Asia right now. Mr. Mehta advises investors to be mindful of valuations.

Companies discussed: PuraPharm Corp. Ltd. (HKG:1498); Leoch International Technology Ltd. (HKG:0842); Sintex Industries Ltd. (NSE:SINTEX); KKR & Co. (NYSE:KKR); Agritrade Resources Ltd. (HKG:1131); Amazon.com (NASDAQ:AMZN); Facebook (NASDAQ:FB); Alphabet (NASDAQ:GOOG); Tesla (NASDAQ:TSLA); Ozner Water International Holding Ltd. (HKG:2014) and Sun Hung Kai & Co. Limited (HKG:0086).

TWST: How would you describe your approach to your research? What sets your firm's research apart from peers?

Mr. Mehta: So we feel that Evaluate Research is very unique, because like I said, for the vast majority, 80% of the companies we cover, we are the only people following the stock. We do very detailed work. When we do an initial report on a stock, it's a 30- to 40-page report.

In my past, I've been an Associate Director of Research and managed a team of nine analysts covering the global financial sector in Boston at Putnam Investments, so I have a lot of experience on the research side. We do detailed financial models, a five-year forecast income statement, cash flow, balance sheet, and we do a DCF — discounted cash flow — valuation model. We thus have a firm price target for every stock.

And then, each of the companies that we select and that we are covering are, by and large, growing because they are young companies, so by definition they are in an early stage of their life cycle. And because they're being ignored and nobody follows these, they're really sort of diamonds in the rough and undiscovered, so the valuations are very, very attractive. I wouldn't say this for every stock, but again, the majority of our companies. We have stocks trading at 3 times p/e. We have a couple of stocks that have 17% to 21% free cash flow yields, trading at a huge discount on price to book.

"We do see a geographical orientation. We have an office in Singapore as well as in India, and so we see more ideas in Asia. A couple of our stocks that we're following are in India, and then there's a whole bunch in Hong Kong, in China, in Singapore and Indonesia. We're global truly in our approach, so we will go anywhere there's an idea."

So it's really a good opportunity for people who read our research, and these reports are freely available on Bloomberg, Thomson Reuters, on our own website, on a bunch of platforms. Whether you're a high net worth individual or you're a small investor, a small fund or the largest hedge funds or buy-side investors, everybody can see our research, and people who do that, I think, can come across some very good investment opportunities with rapid growth as well.

TWST: Within those undiscovered/undervalued stocks, are you seeing any particular themes or trends, or particular areas of opportunity, whether it be by industry or geography?

Mr. Mehta: We do see a geographical orientation. We have an office in Singapore as well as in India, and so we see more ideas in Asia. A couple of our stocks that we're following are in India, and then there's a whole bunch in Hong Kong, in China, in Singapore and Indonesia. We're global truly in our approach, so we will go anywhere there's an idea, and we will go all over the world, and I have very much a global background in my 30 years in the business. But we do see some of the best opportunities in that geography.

And then by sector, I would say it's pretty eclectic. There are some health care companies, biotech companies. They're in various industries, but I will say that they're in various niches, and that's what gives them the opportunity, that's where you see the growth, and that's why these companies generally have a very long runway of growth going into the future.

TWST: Would you give us one or two examples of companies that you've recently launched coverage of?

Mr. Mehta: Sure. One company is **PuraPharm** (HKG:1498). That is listed in Hong Kong. It's one of only five companies that have been licensed by the Chinese FDA to manufacture concentrated Chinese medicine granules. So this is traditional herbal medicine.

They have 70% market share in Hong Kong, and they have a vast array of over 670 products. This company reported 26% revenue growth for fiscal year 2018, and we expect about 16% CAGR revenue growth over the next five years and earnings growth of 92% over the next five years. The stock is trading at just 0.8 times price to book and an 8 p/e. This is a stock that we just recommended recently.

Another one is **Leoch International** (HKG:0842). Again, this is listed in Hong Kong. This is one of the leading manufacturers of lead acid batteries in China. Fifty percent of their sales come from outside China, so this is a global company. The whole thing with electric cars, environmentally friendly products, this company is a huge beneficiary of this secular trend. They have very strong R&D capabilities.

And globally, there's a big push for the rollout of 5G telecom networks. China is doing it; the President of the U.S., Donald Trump, has been talking about the U.S. ramping up their efforts in 5G. These guys are the leaders, so they have 30% market share in batteries that go into the 5G market. And this stock is trading at 4 times p/e, 0.3 times tangible book. If the stock goes back to its highs from last year, that would lead to 130% upside, which is what we see for this company.

TWST: What would you say are your top investment ideas right now, and what about them stands out?

Mr. Mehta: We talked about a couple of Chinese ideas, but in India, **Sintex Plastics** (NSE:SINTEX). India is the most expensive market in the world, trading at about 25 times trailing earnings, but **Sintex**, I would argue, is the cheapest stock within India. It has a 21% free cash flow yield.

I know this company very well for the past three years. I've visited the management and the plant, traveling to their headquarters. This is a 45-year-old brand, and anybody who looks at any residential apartments or residential houses in India, they will see **Sintex** water tanks above the houses, so it's a very visible brand name.

1-Year Daily Chart of Agritrade Resources Ltd.

Chart provided by www.BigCharts.com

Two years ago, they got a huge investment of $186 million with global giant **KKR** (NYSE:KKR) of the United States — **KKR** invested in **Sintex** debt — so I think that's a big feather in the cap of this management team. The stock has been down and out since they did a significant spinoff two years ago, and we think it's a huge opportunity right now. We think the stock is right at an inflection point.

Perhaps one more idea I will mention to you is **Agritrade Resources** (HKG:1131). This is an Indonesian/Singapore company. This is over a $1 billion market cap, and they are one of the largest producers of coal in Indonesia. They have been growing their revenues at 26% CAGR over the last five years, and the net income in the last five years has grown at 53%, and management, when we speak to them, they're very confident of 20% growth going forward.

They have 35 years of reserve life. Their coal is environmentally friendly. They've also recently entered the ethanol business in the U.S. in a small way, so they're focused on environmentally friendly resources going forward. Twenty-four percent of their sales go to China, 22% to India. And the stock is pretty cheap at a 7% free cash flow yield.

TWST: What are you most cautious about today?

Mr. Mehta: We are cautious about the concerns globally of a China-U.S. trade war. I don't think it'll come to a trade war, and we're very hopeful for the global economy, the U.S. being obviously the driver of the global economy, and then China. We hope that this will be resolved. Obviously, a trade war doesn't help anybody — it hurts everybody — and we hope that this will be resolved. So I think that near term that is one of our bigger concerns.

I think another concern that has been there in the marketplace, but especially when the markets were very volatile in the fourth quarter last year, is interest rates. I think those are behind us. You're seeing very low inflation in the U.S. and some of these Asian markets, so I think interest rates are very well-behaved, and so I think the global economy is in a pretty good spot. If we can just get past some of these trade frictions, I think this year/next year should be very good for the overall macro outlook and the macro backdrop for equity investing.

TWST: Are there any other macro issues that you think investors should be mindful of today?

Mr. Mehta: I think one needs to be very mindful of valuations. I mentioned, for example, the Indian market is very expensive. I think the U.S. market is fairly valued; I would not say it's expensive, but it's not cheap. Stocks have done well over the last few years. I think there are more opportunities in emerging markets because that space has been weaker. For example, we've mentioned a few Chinese ideas. The Chinese markets were very weak last year; they were down 25%, 30%.

So I think investors really should focus on valuations. The bull market has been going on for several years, since 2009, so investors should buy stocks, not just chase past performance. It's so easy to buy **Amazon** (NASDAQ:AMZN), **Facebook** (NASDAQ:FB), **Google** (NASDAQ:GOOG) and stocks like that, but one really ought to focus on valuations because that will protect investors on the downside if there's turbulence in the markets.

TWST: What else would you add in terms of your overall outlook for the investment markets globally?

Mr. Mehta: I think that high quality and growth have been very fairly priced. I think growth has beaten value for the past several years, and it's been driven in part by U.S. tech companies like I mentioned — for example, **Facebook**, **Google**, the **Amazons** and the **Teslas** (NASDAQ:TSLA) of the world. They've done really, really well, so growth as an asset class has outperformed value, and I think that will revert back to the mean, which is what it's done historically. So again, it would be good for investors to focus on valuation. You want growth but at a fair price.

I think there is a phenomenon of too many people, too much money, chasing the same ideas. And that creates opportunities for people like Evaluate Research in some of the stocks that we're focused on, which is predominantly in the $100 million- to $4 billion-market-cap range, but there are a lot of undiscovered ideas. A little bit of money rotating out of some of the favorite names to other places will cause a lot of stock performance and upside for some of these names that we focus on.

TWST: Were there any other topics that you wanted to talk about or any final advice to end with?

Mr. Mehta: I would mention just a couple more ideas. One is **Ozner Water International** (HKG:2014). This is a leading supplier of water and air purifiers in China. Again, this is an environmentally friendly secular growth space.

They have a vast distribution network of over 7,000 distributors throughout China, and that network has grown at 20% CAGR over the past three years. And the penetration of water purifiers in China is only 13%, whereas in developed markets it's more like 70%. So we expect 20% revenue growth going forward the next three years, 30% earnings growth, and the stock is trading at just 0.9 price to book, and it's an 8 p/e, four times EV to EBITDA.

And one final idea I will mention is **Sun Hung Kai Limited** (HKG:0086). This is a niche investment in a finance firm; it has mortgage lending and consumer lending. It's got 50 years of operating history, and again, they are in growth areas.

The stock is very, very undervalued today, at just 5 times p/e, 0.5 tangible price to book. The company is buying back stock, they bought about 7% of their stock last year, and this is on top of about a 6.5% dividend yield that they have. So in the last 12 months, they have returned about 14% of their stock price to shareholders, which is one of the highest levels of capital return in the world.

TWST: Thank you. (MN)

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