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MONEY MANAGER INTERVIEW

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Uncovering Global Deep Value Stocks with Significant Upside Potential

SANDY MEHTA, VALUE INVESTMENT PRINCIPALS LTD.

SANDY MEHTA, CFA, Founder and CEO of Value Investment Principals Ltd. (VIP), has over 30 years' experience in the investment and asset management industries. With a 12-year track record, VIP is focused on identifying unique deep value investment opportunities on a global basis. Its clientele has included some of the largest as well as most prestigious money managers in the U.S. and Europe. In 2015, Mr. Mehta founded Evaluate Research, his third entrepreneurial venture in global financial services, focusing on providing institutional quality research coverage for rapidly growing companies in the U.S. and EMs such as China, India, etc. Mr. Mehta also founded Acumen Capital Management in 2004, and incubated a long/short pan-Asia Hedge Fund with $200 million in both HF and long-only assets. Previously Mr. Mehta was a PM of two 5-Star-rated mutual funds, including a flagship US$15 billion Global Equity Fund at Putnam Investments & Wellington Management in Boston. Quoted extensively in global media, Mr. Mehta is a Wharton MBA and CFA, and a collegiate-level Chess Champion.

Highlights

Sandy Mehta discusses deep value investment opportunities in the U.S. and internationally. He seeks unique, underfollowed companies that offer clear deep value, dividends and catalysts for growth. He says that many of the firm's picks are potential acquisition targets due to strong balance sheets and strong free cash flow. Mr. Mehta discusses six companies fitting their criteria where he believes there is significant upside potential. He recommends several money management companies, including New York City-based Silvercrest Asset Management, which he believes is extraordinarily undervalued, and Hywin Holdings, the largest independent wealth advisory firm in China, which had an IPO in March. He also likes mid-priced luxury brand Movado, which he believes to be a beneficiary of the current strong demand for luxury products.

Companies discussed: Silvercrest Asset Management Group (NASDAQ:SAMG); Movado Group (NYSE:MOV); LVMH Moet Hennessy Louis Vuitton SE (OTCMKTS:LVMHF); Compagnie Financiere Richemont SA (OTCMKTS:CFRHF); Kering SA (OTCMKTS:PPRUF); United Bancorp (NASDAQ:UBCP); Hywin Holdings Ltd–ADR (NASDAQ:HYW); Sun Hung Kai & Co. Limited (HKG:0086) and Leoch International Technology Ltd. (HKG:0842).

SECTOR — GENERAL INVESTING

(AHT552) TWST: Could you tell me about the firm?

Mr. Mehta: Value Investment Principals, or VIP, is an independent investment research firm. We seek unique, deep value ideas on a global basis. We have a 12-year-old track record. Many of the ideas that we research and we communicate with clients are ideas that nobody else actively follows. So the ideas are unique. All have value, many with high dividends and also they have catalysts and growth characteristics. VIP is one of three finance and investment firms that we have set up. The other two being a hedge fund, as well as another research business. And we have offices in Singapore, India, as well as in the U.S.

TWST: Could you give an example of a unique approach that you're taking?

Mr. Mehta: So we actively screen, do in-depth research on ideas, with detailed five-year forecasts and rigorous ratio and competitive valuation analysis. I have several stock ideas, which I would love to share.

TWST: Go right ahead.

Mr. Mehta: Sure. So, for example, one of the stocks that we follow is **Silvercrest Asset Management** (NASDAQ:SAMG). They are headquartered in New York City. This is a money management firm. It's an investment advisory firm. They've had an amazing track record in all of their strategies for the past 24 years.

The stock is extraordinarily undervalued.

It's up 40%, since we got into this stock just about a year ago. The stock is trading at seven times p/e. It's got a 4.5% dividend yield and it's got an 18% free cash flow yield. And this company, over its 24-year history, assets under management have compounded at 31% per annum. And these guys really specialize in small cap and value investing and those strategies have really come back over the last six months. That is a huge catalyst for them.

"Movado is a stock that is trading at a 6 p/e for a $30 stock, they have $8 per share in net cash and if you look at Swiss Industry Association data, watch exports out of Switzerland are booming, particularly to places like Asia and China. This stock has risen above 40% since when we got into it, but it's still about 40% from its five-year highs."

Silvercrest has grown organically. But they've also made tuck-in acquisitions. They also have what they call the OCIO — outsourced chief investment officer initiative. So there are many things that they're doing that are unique.

There are many asset management firms that are struggling because of poor performance. But this one is still, we think, relatively undiscovered with very strong performance and actual strong growth as well. They just reported very strong earnings growth of 17% for the March quarter.

TWST: And typically, a lot of investors may not think of an asset management firm as a potential investment. They might think of larger financial services companies. Has that been the case, do you think?

Mr. Mehta: That has historically been the case. That's why we think it's an opportunity today. You are absolutely right. Firms like this, it's not well covered. When we first started covering the stock, we were the first people to do so. And it's really under the radar. I think that creates the opportunity.

In the overall sector, many of the companies are not growing any longer. At some point, I think, given their performance and given their track record, I think this company itself may be an acquisition candidate. That is the case with many of our ideas with strong balance sheets, strong free cash flow. They lend themselves to being potential acquisition candidates.

TWST: And did you want to mention a second company?

Mr. Mehta: Another one is **Movado** (NYSE:MOV), which is based in New Jersey. They have their origins in Switzerland. So obviously, it's a well-known watch brand. And what's happening now, despite the global recession last year, and COVID still a concern globally, there's really a boom in global luxury partially because maybe the stock markets have done well globally. So companies that are listed in Europe such as **LVMH** (OTCMKTS:LVMHF), they own **Louis Vuitton**, **Kering** (OTCMKTS:PPRUF) which owns **Gucci**, **Richemont** (OTCMKTS:CFRHF), **Cartier** — those stocks are all trading at 30, 35 times earnings. They've all had very strong March quarter results.

Movado is a stock that is trading at a 6 p/e for a $30 stock, they have $8 per share in net cash and if you look at Swiss Industry Association data, watch exports out of Switzerland are booming, particularly to places like Asia and China. This stock has risen above 40% since when we got into it, but it's still about 40% from its five-year highs. And I think it's really a beneficiary of strong demand for luxury products. While its peer stocks are trading at record highs, this stock still has a long way to go, we think. We see at least 80% upside from here.

TWST: And for many people, what leads them to buy a luxury watch as opposed to something more economical?

Mr. Mehta: Movado is not ultra-luxury. It's not like a **Rolex** or **Cartier** watch, which is a $5,000 or $10,000 or $15,000 watch. It's sort of mid-priced luxury. Their watches are $500, $1,500. And what you have is the millennial generation really hitting its stride. We see it in the housing sector as well. And people like branded items, whether you're young or old, and these guys have watches that also cater to the young population as well.

It's not just the **Movado** brand, but they have several other brands as well, such as **MVMT**, for example. It's a status symbol. And whether it's the clothes people wear or the car they drive, or the laptop or the cellphone they have, people do care about status and quality. And mid-price watches such as **Movados** will do well with the young generation in the U.S. as well as in international markets, emerging markets, such as China and India. The Prime Minister of India wears a **Movado** watch.

1-Year Daily Chart of Silvercrest Asset Management Group

Chart provided by www.BigCharts.com

Watch sales overall, not just **Movado**, but for the entire industry, luxury sales to China are moving because that economy is recovering rapidly from COVID. There's only one analyst that covers the stock. We think it to be undiscovered, and they have a dual class of stock. If you didn't have that, this company would have been acquired a long time ago. Eventually it might still be acquired.

TWST: And did you want to mention a third company?

Mr. Mehta: Another one is a U.S. company. It is **United Bancorp** (NASDAQ:UBCP). This is a small mid-cap, an undiscovered gem. It's an Ohio bank. It's really well run. They've had five CEOs in their 120-year history. They just reported their earnings per share for Q1 up 21% for the March quarter. Over the last five years, their earnings growth has been 18% per year, 4.5% dividend, they've declared five special dividends over the past five years. The stock is up 40% since we've been involved, but we still see a further 40% upside, very well capitalized with 19% capital adequacy.

"So, ourselves, for the last 30 years as value investors, we often screen for ideas, we screen for broken IPOs because you get some really great opportunities. And usually in my experience, they bottom out two to three months after that. And I think this is exactly the setup that's taking place right now with Hywin."

Last year, despite the recession, their non-performing loans sequentially each quarter last year in 2020 actually went down, which is really phenomenal, and their balance sheet is under-leveraged in terms of loan and deposit. So as the economy recovers, especially in the Midwest and places like Ohio that are recovering from coronavirus, I think this company will do really well.

TWST: And have they largely grown organically or did they make some acquisitions over the years?

Mr. Mehta: They've largely grown organically. They have had a few small tuck-in acquisitions. But they've largely grown organically and they're expanding in terms of Ohio, another little bit in Pennsylvania, as well as West Virginia. They're also a beneficiary of residential real estate booming across the U.S. So, like I said, they're under-leveraged. With the recovering economy, their margins will benefit, their earnings will benefit.

TWST: Do you want to mention another company?

Mr. Mehta: Sure. Another stock is called **Hywin Holdings** (NASDAQ:HYW). It just recently had an IPO in March three months ago on the Nasdaq. It's based in China. At the IPO, it had the price of $10 per share. Today, the stock is about $8. So the stock is down 20%. And they are the largest independent wealth advisory firm in China. They also have an office in New York City.

But as the Chinese population, the high-net-worth category is the fastest growing segment of the Chinese population. And everybody, whether you're in China or the U.S., everybody's looking for which mutual fund in which to invest, what products to invest in to maximize your investment income. And these guys really distribute a lot of privately sourced products. So real estate products, private equity products. That's why they've been able to really grow their client base.

They just reported earlier this week on Monday 98% net income growth on 47% revenue growth for the March quarter. And the industry is only 6% penetrated in China versus wealth management advisory's 32% penetration in Hong Kong and 62% in U.S. This is a secular growth area. The stock as I speak to you today is trading at a 6 p/e, 28% net cash, 18% free cash flow yield. At some point, it's our opinion that they will likely have a sizable dividend as well.

Being listed on the Nasdaq, this is an easy way for U.S. investors to get exposure to companies overseas.

TWST: And you mentioned that they just had an IPO. Sometimes, there are risks associated with going to companies that are just having an IPO. Might you want to wait a little while to see how it plays out?

Mr. Mehta: That's an excellent question, because in my 30 years' experience, when there's an IPO, whether it's in the U.S. or anywhere, there's a lot of hot money, fast money, buying an IPO. They're looking for a quick buck. Or, a lot of people are looking to flip the stock on the first day. You have IPOs that on the first day, the trading volume is two or three times the amount of shares that were sold to the public.

What happens is if an IPO does not do well on the first day, people cannot flip it for a quick gain. If it breaks below the IPO price, it's called a busted IPO. Then people sell. People say, well it's a small position, the stock is going down, I didn't make money, I'm just going to unload it. And that leads to sort of its own cascading effect of lower stock price.

And we see this often — and weakness in the stock price. Breaking the IPO price leads to further selling and finally it can bottom 20%, 30% below the IPO price. That whole process takes two to three months typically. And I've seen this.

So, ourselves, for the last 30 years as value investors, we often screen for ideas, we screen for broken IPOs because you get some really great opportunities. And usually in my experience, they bottom out two to three months after that.

1-Year Daily Chart of United Bancorp, Inc.

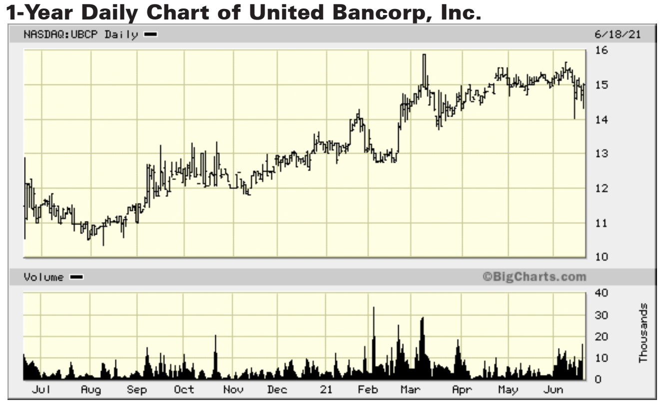

Chart provided by www.BigCharts.com

And I think this is exactly the setup that's taking place right now with **Hywin**. They did their IPO in March. It's been a few months. People have given up on this stock. Everybody who has wanted to sell has sold, and now they've had good earnings. I think this is a perfect opportunity. The stock is just too cheap. People have given up on it and I think that creates an opportunity going forward.

TWST: And do you want to mention final companies?

Mr. Mehta: We have talked about the U.S. stocks. We have we have a couple of really good opportunities overseas. **Sun Hung Kai** (HKG:0086) is a niche lender and asset management company in Hong Kong and China. Despite the recession last year, they had 23% earnings growth in 2020. The stock is now beginning to do well; it's up 30% year to date. We still see another 80% upside. The stock is extraordinarily cheap and that's why we like to talk about it. It's trading at 0.5 times price to book. It has a 3 p/e and it's giving a 6% dividend yield.

It's a theme in terms of our investment style. We like to be paid while we wait. And these guys are doing a lot of good things in terms of setting up the company for future growth. They've had a positive transformation disposing of their brokerage business and they're adding fund management. We think that despite the strong growth last year, there's a lot more growth going forward for the company as well. For a 3 p/e, a 6% dividend yield, it's just extraordinarily cheap.

Another one is **Leoch** (HKG:0842) and they're a leader in the manufacture of batteries. This is an excellent play on 5G telecom networks, electrical vehicles. You have more requirements for data storage all over the world, data backup. We continue to see electric vehicles, more technologies, electronics in cars. These guys benefit from that. And they've just based it on growth opportunities. They have set up a new lithium-ion plant in China to make batteries. They've also set up two plants in Vietnam.

They went through a bit of an investment phase for the last couple years. I think now, you will see the benefits of that. Shareholders will see that. And again, the stock is trading at a 4 p/e. We know this company's management really well. We've met with them several times over the past three, four years. We see well over 100% upside. And we think that they're in some secular growth areas.

TWST: What are some suggested precautions that you could provide investors if they're looking for such stocks?

Mr. Mehta: I think focus on the valuation. Make sure that you have some sense of what protects you on the downside. Small-cap stocks were out of favor for many years. Everybody was gravitating toward large-cap technology. So even if a stock is cheap, you have to be mindful of value traps. So many of the ideas we mentioned today, you are being paid a dividend. So that's always a good sign, so at least you're getting something even if the stock doesn't move, doesn't do anything for a while. Investors are getting some income.

We like stories with clean balance sheets. When a company has net cash like several of the stocks that we mentioned today, good things invariably happen. That can lead to more dividends. It can lead to special dividends as in the case, for example, with **United Bancorp**. And ultimately, these companies can be bought out.

But yes, for small-cap value investors, you have to be mindful of value traps; something that looks cheap always has a risk that it could get cheaper. And you need catalysts. Value just in and of itself is a catalyst. But you also want growth, new products, earnings growth. All of a sudden, the last six months, many of these stocks, they're up 40% in six months, they have doubled for others. And so, one has to be careful.

It's tougher to find ideas today than a year ago or six months ago, but you can still find that combination of clear deep value, dividends, as well as catalysts for growth. And that's what we really strive to seek.

TWST: And because a lot of these stocks have potential for growth — are these the kind of stocks millennials might be interested in, who are just beginning investment for the long term?

Mr. Mehta: Yes, absolutely. Many of these companies have products and services that are targeted toward the millennial generation. And some of these types of stocks might get the attention of **Robinhood** investors at some point. So, yes, I think they would do well with these types of stocks. Oftentimes, new traders tend to invest more with what they see on TV or the stock of the day. So these types of stocks, typically are not that well covered, not well understood. But then something can happen and some good earnings report or some analyst picks up coverage and all of a sudden, the stocks can explode.

TWST: You interact with the management of a lot of these companies. What are some of their concerns and what kind of economic conditions would benefit the growth of these companies?

Mr. Mehta: We interact with the managements of all these companies. We speak to management. We meet management face to face as part of our research process. And we really would like to invest in companies that are not dependent on a booming economy to do well.

There's certainly cyclicality. If you invest in a banking stock or an asset management company, or a mid-priced watch company, there is a certain cyclicality. But we feel that right now, after the world having gone through a recession this past year, I think right now is an opportune time to get into these stocks. And when the stocks are down 50% or 80% from their previous highs, the risk/reward has been very favorable.

We made a lot of money in furniture stocks, several furniture stocks last year, and there is a boom now, from the millennial generation in particular, that people are buying furniture, people are buying houses. People want to work from home. They want more space. People are leaving big cities for various reasons. So, given your earlier questions about the millennials — that has been a key thesis of ours, what the millennials want to do, what they want to focus on. We've benefited for example in these housing stocks which are up 200%, 100%, 50%, a few of the names that we have been following.

TWST: Thank you. (ES)

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