



WESTERN INVESTMENT CLUB

Retail Holdings N.V. Buy Presentation

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Overview

Overview

Thesis

- Retail Holdings (ReHo) Trades under the symbol RHGDF on the pink sheets – market cap: \$75 million

History

- A holding company with several assets:

1. 56.516% of Singer Asia Limited, a leading distributor of consumer durable products in South Eastern Asia
2. \$25.8 million in notes receivable - 11%
3. Cash

Valuation

Catalyst

- ReHo's strategy is to maximize the value of these assets, monetize them and distribute the proceeds to shareholders

Risk Factors

- The company aims to minimize holding company personnel and administrative costs throughout the liquidation process

Recommendation

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Investment Thesis

- Valuation: trading at deep discount to the sum of its parts; earnings power implies significantly higher valuation
- Market Position: underlying businesses are local leaders
- Growth: favorable dynamics in local markets; consumer durables businesses exiting a cyclical trough
- Management: proven management, sizable stake in the company
- Margin of safety: significant - based on previous transactions and tangible assets

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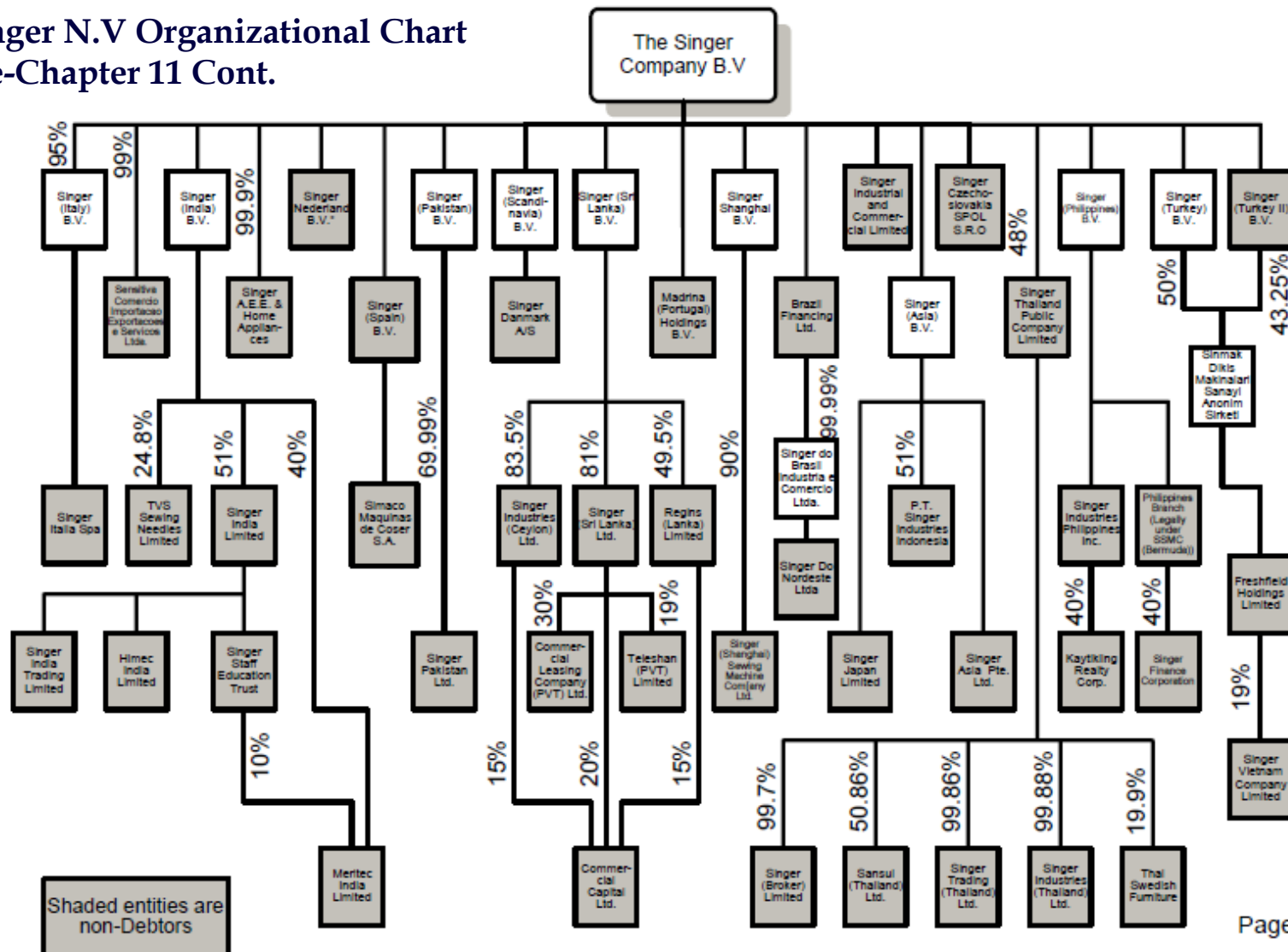
Risk Factors

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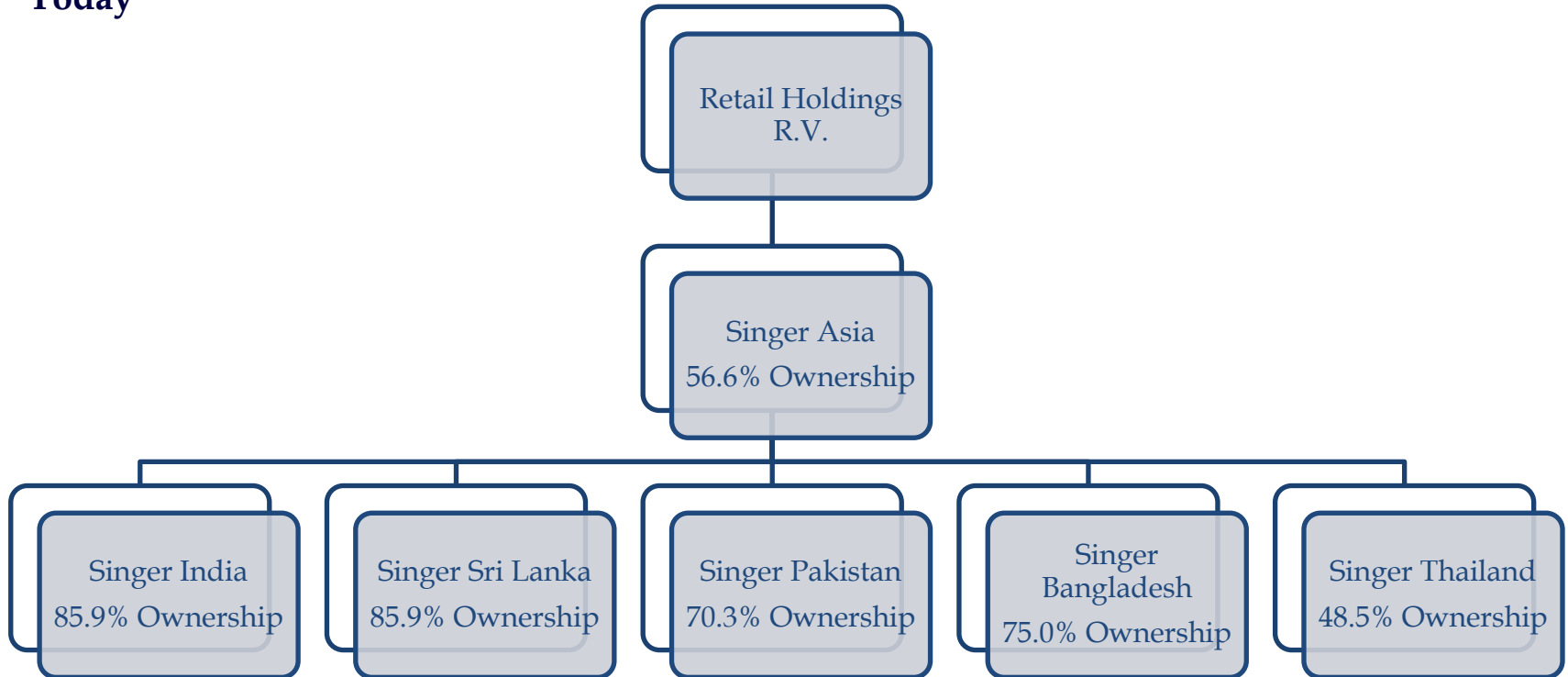
- Rich history and strong brand: incorporated in 1863 as Singer Sewing Machines; presently Singer is still the number-one maker of industrial and consumer sewing machines
- 1960's: became the largest player in the sewing industry in the United States - expanded internationally shortly thereafter
- 1970's: diversified away from core business through acquisitions. Entered electronics, meters and aerospace industries
- 1980's: aerospace business suffered, while sewing business was - surprise - alive and well
- 1990's: leveraged exiting distribution networks from the sewing business and entered the retailing businesses in developing countries. Began successfully, but suffered from the Asian economic downturn later in the decade
- Before filing for Chapter 11 in 1999, company was listed on the NYSE and generated revenues of \$1.26b in the previous fiscal year

Singer N.V Organizational Chart Pre-Chapter 11 Cont.



Shaded entities are non-debtors

Singer N.V Organizational Chart Today



Internal Analysis

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- Singer Asia is the largest network of consumer durables and electronics retailer in South East Asia
- Singer Bangladesh
 - 2009 revenues: \$63.4 million, EBIT \$7.5 million
 - Market share:
 - Refrigerators - 24%
 - Televisions - 21%
 - Washing machines - 10%
 - Consumer sewing machines - 25%
- Singer Sri Lanka:
 - 2009 revenues: \$103.8 million, EBIT: \$12.5 million
 - Market share:
 - Refrigerators - 52%
 - Televisions - 38%
 - Washing machines - 37%
 - Consumer sewing machines - 80%

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Internal

- Singer Pakistan:
 - 2009 revenues: \$26.5 million, EBIT \$2.3 million
 - Largest retailer in Pakistan of consumer durables
- Singer Thailand:
 - 2009 revenues: \$46.8 million, EBIT \$3.5 million
 - Largest direct (door-to-door) retailer of durable consumer goods, returned to profitability after measures to tighten lending policies at its consumer credit arm
- Singer India:
 - Undergoing restructuring
 - Distributor of sewing products and operates 17 retail stores
 - One of two multinationals with the legal right to operate a nationwide retail operation in India

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Management

- CEO Stephen Goodman owns 19.6% of shares outstanding, spouse owns an additional 5.6%
- Assumed CEO role in 1998 to restructure the then struggling conglomerate
- Subsequently divested the stagnant sewing business and helped build Singer Asia into a leading and profitable franchise through various restructuring and cost cutting initiatives
- Committed to monetizing assets and return proceeds to shareholders
- Excellent track record: reduced share count from 8.8 million to 5.3 million since 2003; paid out \$2.75 in dividends per share since 2007

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External

- Singer Bangladesh and Singer Sri Lanka represent Singer Asia's most valuable holdings, therefore business environments in these regions are crucial
- Bangladesh
 - Real GDP growth to average 6.2% p/a until 2014 lead by strong private consumption
 - Unemployment projected to be 5% until 2014
- Sri Lanka
 - Civil war ended in 2009 -> general optimism and government policies are tailwinds to economic growth
 - Real GDP to grow on average 6.3% p/a until 2014; private consumption to grow by 6.5% p/a
 - Unemployment projected to be 5.3% in 2011, reducing to 4.8% in 2014



Overview

Economic Moat

Thesis

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Yes

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Economic Moat

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- One of the most recognized brands in South East Asia
- Extensive distribution networks difficult to replicate
- Significant economies of scale from being the largest distributor
- Established in countries with high regulatory barriers to entry
- Has the ability to manufacture consumer locally in areas with high barriers to sourcing
 - Has controlling stakes in two Sri Lanka-based durable goods manufacturing firms, Singer Industries and Regnis PLC

Overview

Valuation*

Thesis

Division	% Ownership	Share Price (local)	S/O	Market Capitalization	Exchange Rate	Value
Singer India	85.9%	36.7	10.7	394.3	44.215	\$7.7
Singer Pakistan	70.3%	17.8	34.1	607.2	85.950	\$5.0
Singer Sri Lanka	87.5%	194.4	62.6	12170.4	111.830	\$95.2
Singer Bangladesh	75.0%	7,389.5	2.2	16581.0	70.225	\$177.1
Singer Thailand	48.5%	3.4	270.0	907.2	29.910	\$14.7
Total						\$299.6

History

Size-up

Valuation

ReHo Ownership	56.5%
Value of Singer Asia Stake	\$169.3
Plus: KSIN Note	25.8
Total	\$195.1

Catalyst

Current Share Price	12.5
S/O	5.2
Market Capitalization	\$65.5

Risk Factors

NAV/Share	\$37.23
Premium/(Discount)	(66.4%)
Upside	197.9%

Recommendation

*As at October 2010,, not including cash

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Valuation

- The unknown in sum of the parts analysis is taxes on potential sale of subsidiaries, but would likely be tax efficient if shares in subs are distributed to shareholders
- Back of the envelope calculation - assume all subsidiaries are liquidated, at 35% tax, RHDGF is still worth around \$29/share*
- DCF approach is impractical/speculative given the complex organizational structure and lack of visibility of key inputs
- Valuation multiples:
 - Trailing P/E: 5.1x (Subsidiaries current trades at around 10x P/E)
 - Trailing EV/EBITDA: 3.9x
 - **Lots** of room for multiples expansion - especially considering **growth**; low cash flows multiples means shareholders are paid well while waiting to realize returns

*Tax calculated as (NAV of Singer Asia based on market values – book value carried at Retail Holdings) x Tax

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Margin of Safety

- In 2003, a 43.2% minority stake of Singer Asia was sold for \$30 million, valuing current stake at \$39.5mm
- Plus: \$25.8mm notes receivable equals to \$65mm, which is equal to the current market cap
- However, Singer Asia should be worth more today due to significant improvements in its business from restructuring and organic growth - eg. EBIT increased from \$18.9mm to \$29.7mm
- Singer Bangladesh recently sold its financing division which alone generated \$30mm in cash

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Why is it undervalued?

- Too small for most institutional buyers, obscure: zero analyst coverage
- Businesses are located in markets that are perceived to be risky
- Conglomerate discount
- Very thinly traded – few bids/asks
- However, share prices have appreciated dramatically since 2009, as shares in subsidiaries rose and investors began to appreciate the attractive valuations

Overview

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- Continuing sale of assets

History

- Further fundamental improvements/share price appreciation of subsidiaries

Size-up

- Special dividends, stock buybacks

Valuation

- Potential distribution of shares in subsidiaries

Catalyst

- Greater interest (more volume) in the stock should propel it quickly towards NAV, especially in a highly illiquid market

Risk Factors

Recommendation

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Risk Factors

- Decline in fundamentals of its Asian businesses as correspondingly their market value
- Cannot find buyers willing to pay a reasonable price; time horizon – IRR decreases the longer it takes to liquidate
- Currency risk
- Political risk
- Liquidity – any risk will be magnified by the lack of liquidity should everyone heads to the exit at the same time

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- Current Price: \$15.25
- Target Price: \$30.00
- Time Horizon: 1-2 years



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