

Company X - Email Me, Then Buy It

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*I don't make a habit of writing about small cap companies with very little liquidity given the difficulties of entering and exiting a position, but today I'm making an exception because I believe this Company will grow into a much larger one over the coming years (and therefore eliminate the share liquidity issue). However, given current trading dynamics of the stock, I have kept the Company nameless below. If you'd like to learn more just send me an email at: **analyst at this domain**.*

Company X provides direct investment exposure to one of the world's fastest growing economies without the risks typically associated with emerging market investment opportunities. This company possesses all the qualities one would look for in a great long-term investment:

1. A management that is 100% aligned with shareholders. The founder takes no salary, stock options, performance allocation, bonus or anything else. He started the company because he wanted to invest his own money in the country (he has invested the majority of his personal wealth). In total, Management owns 33% of the company and 70% - 80% are owned by roughly 20 people / institutions.
2. A simple, predictable business model with near zero operational risk. The founder started the company after searching for ways to get early access into one of the world's biggest secular growth stories. But he couldn't find anything investible – most of the available opportunities required taking on very large operational or financial risks (mining companies, for example). One area he keyed in on was real estate: it offered very strong leverage to the growth of the economy without any of the operational risks. So he built a company focused on acquiring, constructing and managing real estate in the center of the country's capital and largest city. He bought in early at discounted prices and put together land packages for current yield and future development. The "future development" part is where the blue sky upside comes from.
3. A dominant position in their market. The unique topography of the city largely prohibits expansion development and serves as a large barrier to entry. A single two lane east-west road constricts movement and focuses all development into the downtown area of approx. 2km north-south by 3km east-west. Those with locked-in real estate positions in the key sections of the city will disproportionately benefit as the economy continues to grow.
4. No balance sheet risk. The company is conservatively financed with no leverage.
5. No fraud risk. The founder is an American and is aligned with shareholders. The authorized signors on the bank accounts are all American / Canadian. Friends and family invested at the outset with the founder. Major investors are very reputable (including Paul Singer). PricewaterhouseCoopers is the auditor. And the company is very transparent with its asset holdings / market updates.
6. The Company's assets are located in a country with a democratically elected government with regular elections that see the ruling party change.
7. A valuation that doesn't reflect the fundamentals of the country or the company. The

company trades at approximately the current value of its tangible assets, assets that have been compounding at 30-50% a year and will likely continue to grow at double digits with a relatively high degree of predictability.

8. This company epitomizes the Pabrai equation: "heads you win; tails you don't lose". You're investing alongside a conservatively run company with tangible barriers to entry, leverage to a country with unmatched growth potential, at asset value, with a cap rate tailwind (current cap rates in the teens will likely move into the 5 – 9% range as the market matures) and double-digit annual rental increases, and you get development upside as a free call option (e.g., knocking down a 3 story building to build a 20 story office center completely changes the economics of the business).
9. The timing is right: (1) Recent government actions are very investment friendly and largely eliminate market fears of foreign investment flight, (2) we're likely in the 2nd inning of a 20-30 investment cycle in the country, and (3) mortgage rates / financial markets are just beginning to open up (last year the government created a program to make mortgages much more affordable for citizens; most borrowers will see their monthly mortgage payments drop 50% - 70% - the implication for home / apartment ownership demand and property price increases is obvious).
10. The Company just brought on a new CEO with a historical track record of success in (a) raising billions of dollars in capital, (b) building out large and scalable real estate platforms, and (c) operating some of the world's highest profile property organizations. And the crazy part is, he just spent three months in negative 30 degree weather kicking the tires then decided to invest a quarter million of his own dollars and took mostly stock options as salary. That should tell you all you need to know about where he believes this Company is headed.
11. Finally, there is historical precedent for this investment. Just take a look at Kazakhstan which benefitted from an oil boom and subsequently saw the currency appreciate 20%, apartments in their largest city increase over 800% and downtown land per meter increase 8,000%. The only difference here is that Kazakhstan is 10 years ahead.



Compelling indeed.