East 72 Dynasty Trust

"a portfolio of quality businesses under the aegis of controlling shareholders"

ABN 43 935 022 778

QUARTERLY REPORT #5: PERIOD TO 31 MARCH 2024 ©

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Performance and net asset value

Quarterly return†: 6.76%	**NET ASSET VALUE PER UNIT AT 31 MARCH 2024†: $1.1418**

† after all ongoing and performance fees. High water mark at 31 March 2024 is $1.1447/unit

Yes, we have a new font. Plus a slightly different quarterly report focused on components of investee companies which we view as exceptional businesses, rather than a major exposition of the whole. Obviously, we do have regard to the valuation of the entire entity. "Hidden Gems" if you will.

These quarterly reports are not financial/equity market commentaries; you can find thousands of those elsewhere. But it's fair to say that the March quarter was a euphoric speculative frenzy which we struggle to believe will end well. Seeing bitcoin rise by two-thirds, as a starting point and with numerous double-digit gains in equity indices (DAX +10.5%; Euro 50 + 12.6%; SP500 +10.1% and Nikkei +21.8%) bodes badly for future returns. Even the NASDAQ100 (+8.5%) couldn't keep pace. We are keener than ever to check that we are not caught up in the euphoria and don't hold securities dependent upon outlandish asset or security valuations.

Fifteen stocks within Dynasty Trust contributed over 0.25% each to overall quarterly performance, illustrating the widening of equity market participation away from narrow technology-based securities as the quarter progressed. The largest contributors to performance – which measures stock price change adjusted for weighting (so that a 4% position rising 10% adds more than a 1% position rising 30%) - were Softbank Group Corp (+44% to sale), D'Ieteren Group (+16.2%), MFF Capital Investments (+17.7%), Catapult International (+12.3%), Sphere Entertainment (+23.4% to sale), and Compagnie de l'Odet (+7.8%). Two significant detractors in the quarter were Ocado Group PLC and Manchester United.

Dynasty Trust's top twenty positions as at 31 March 2024 as a percentage of net asset value are:

Compagnie de L'Odet	4.75%	Swatch Group	2.82%
Catapult International	4.15%	Canadian General Investments	2.78%
D'Ieteren Group	3.78%	Virtu Financial	2.78%
Vivendi	3.50%	E-L Financial Corp	2.74%
Société des Bains de Mer	3.12%	Harworth Group PLC	2.63%
Bolloré	3.08%	Occidental Petroleum	2.61%
Hong Kong and Shanghai Hotels	3.05%	Fairfax Financial Holdings	2.60%
Fairfax India Holdings	2.99%	Robertet SA	2.59%
MFF Capital Investments	2.96%	HAL Trust	2.53%
Magellan Financial	2.84%	Christian Dior	2.52%

At quarter end, we retain around a 1% cash weighting.

Over the quarter, we tendered our Manchester United PLC stock into the Ratcliffe offer and replaced the sold shares at a nearly 60% lower price, sold our Softbank Group Corp shares as the inflated price of ARM Holdings became difficult to justify, and exited Sphere Entertainment. We also divested our Pershing Square Holdings shares; not so long after penning our December 2023 comments on the company, the manager decided to establish a new closed end fund in USA which we believe is not in PSH's best interests. Moreover, Mr. Ackman in our view appears extraordinarily distracted to a degree not seen since the nadir of the Herbalife short fiasco.

We added new holdings in Fairfax Financial Holdings, a Canadian reinsurance company after an appallingly argued short-sale thesis saw the shares sold off sharply for less than a week in February. We also added Occidental Petroleum, the oil business boasting Berkshire Hathaway as its largest and effective "controlling" shareholder, but more pointedly exercising a capital management philosophy of some note.

We now have five Hong Kong listed holdings; CK Hutchison continues to frustrate as the UK regulators (Competition and Markets Authority) mull[1] over the merger of Vodafone and 3 in the UK, as the third and fourth players in the mobile market. This overshadows recent improvement in the ports business, and a buoyant retail environment for the key health and beauty area. The shares trade at a P/E just above 6x trailing earnings.

We added four new stocks in the HKSAR over the quarter, two of which we are happy to disclose. Hong Kong and Shanghai Hotels (0045.HK) is discussed at length later but we also acquired First Pacific (0142.HK)[2].

First Pacific is a holding company controlled by the Indonesian Salim family for strategic stakes in a variety of attractive businesses in Indonesia and Philippines, notably 50.1% of Indofood (producers of Indonesia's staple instant noodles, Indomie), 26% of Philippines Long Distance Telecom, and 46% of MetroPacific Investments (privatised in late 2023) which itself holds significant power, water and toll road interests in Philippines. First Pacific is a complex, but not impenetrable structure which conservatively trades at ~50% discount to NAV. There are various catalysts for partial realisation of the NAV and corporate disclosure is excellent.

The two undisclosed holdings share a common trait with the other three: virtually all their assets reside outside Hong Kong and so new shareholders have benefitted from "HK pricing" of global assets as that stockmarket slid away on China/Chinese economic concerns. The UK market shares similar traits where the politics/economics of the country, perhaps amazingly, have had a disproportionate impact on the pricing of some companies based there with global businesses. We are looking closely for those which fit Dynasty Trust's ethos and mandate.

Hidden Gems and why they are important

We are often questioned by investors who believe controlled companies lack growth and investment success has an excessive reliance on closing discounts to NAV. Whilst reduced discounts to assessed NAV offers a potential and lucrative source of shareholder return, we are aware that such movement takes time, and that catalysts are not always easy to spot. That return profile is most likely to happen with asset liquidation, which is why we are quietly very confident on outcomes within the Bolloré group. The types of transformation without specific catalysts – other than strong long-term performance - seen in investment companies such as Australia's Washington H. Soul Pattinson from 35%+ discounts to post-tax NTA in early 2009 to the recent prevailing 20%+ premium[3] are few and far between. Strong NTA/NAV growth is more prevalent, though often not always recognised in a closing of the discount to NAV.

We see this most obviously in holdings such as Exor, which continuously trades at a conglomerate discount of 40% to NAV despite the driving force of Ferrari; similarly, the discounts within the Bolloré galaxy are upwards of 50% to NAV, despite the major forward driver of the two "head stocks" (Bolloré, Compagnie de l'Odet) being the growth of Universal Music Group.

[1] "muse" might be a better descriptor – the pace is languid

[2] We would like to thank Diego Milano in Portugal for his assistance in analysing this investment

[3] Share price of $8.62 versus post tax NTA of $13.38 on 31 January 2009 to a share price of $34.40 on 31 January 2024 versus $28.53 post tax NTA

Both Ferrari and UMG are both publicly listed securities which the cynic can argue are directly accessible. However, what about amazing businesses "hidden" within structures which offer significantly discounted entry to the underlying asset, but where this publicly listed vehicle is the only avenue to invest in these enterprises?

These "hidden gems" are critical to the compounding capability of the controlled listed company, even though they may be but only one component of the overall valuation, as is the case with the first two we discuss. Not only do these gems have exceptional returns on capital (or are moving towards that) but provide very strong cash flow to self-fund expansion, build value elsewhere in the listed group, and execute capital management activities if warranted. The fact that the listed entity is a controlled structure tends to mean that the holding period for the businesses is very long, although a willingness to partially divest a portion to an appropriate partner along the way is not out of the question.

This quarterly looks in depth at three assets which account for the largest component in value – but not the whole value – of three portfolio companies **in our top ten holdings**. Our longest analysis, Belron, is a wonderful, transparent example of ALL the above traits. Our second example, BIAL, is an obvious long-term asset, with massive built-in growth from demography and regulation. The final example, Peninsula Hotels, is part of a group established in 1866 and chaired by the same family since 1937. Its current return on capital is miniscule after a significant investment phase and difficult trading conditions. That is reflected in the debt adjusted 55% discount to net asset value as the business starts to turn up. A significant example of "price is what you pay, value is what you get".

Belron – a staggering compounder in vehicle glass repair and replacement

Belron is one of the premier global businesses we have come across, but it's really only in the past five years that a confluence of factors have come together to enable it to earn the returns commensurate with its global positioning. Belron has virtually every beneficial attribute outside of an IT growth or natural monopoly business you could wish to find. Market leadership in every one of its major markets, pricing power, network effect, a material technology advantage in an industry where technological change – in vehicle glass - becomes a moat of vast significance. The company produces prodigious cash flow which has facilitated generous dividends and capital returns to the equity owners via private equity-style financial engineering and debt refinancing.

Since late 2021, Belron has been owned by four shareholder groups:

- Staff and management with 11%;
- The private equity group Clayton, Dubilier and Rice (CD+R) via an SPV (20.5%);
- An investor group of San-Francisco based Hellman & Friedman, Singapore's GSIC and Blackrock (18.2%); and
- The Belgian listed, family-controlled conglomerate, **D'Ieteren Group (DIE.BR)** with 50.3% and which is equity accounted in D'Ieteren's books.

Hence, D'Ieteren is the only realistic avenue for public investment in Belron. Moreover, since D'Ieteren is 63% controlled by the eponymous family whose predecessors incorporated the company as a coach builder in 1805, and is only listed in Brussels, plus there are other assets within the holding company, the vast majority of investors seem happy to let the opportunity pass by.

Dynasty Trust started acquiring shares in D'Ieteren in the third quarter of 2023 at an implied valuation of Belron (on our maths) 58% lower than the November 2021 transaction where the investor group acquired their shares from CD+R. D'Ieteren shares are up about 31% since then, but the ongoing performance of the holding company's largest asset by far, continues to more than justify the Top 10 position in our portfolio, despite the four-fold run up in the shares since late 2020. That came after a fifteen-year period where the shares did very little at all.

Some folks ask why we often run through the history of a company, occasionally going back half a century. In our view, in this specific case (and of course, many others) it's only by tracking back through the history that provides a thorough understanding of why Belron is where it is today, and how the hockey-stick growth "opportunity" has come together in a shortish period of about 5-6 years.

D'Ieteren has a long history in "personal transport" in Belgium having been a vehicle body builder at one stage and diversifying into distribution and parts replacement. Until 1999, the two major activities after WWII were the acquisition of the Belgian distributorship for VW in 1948 - the models now distributed by d'Ieteren Auto amount to ~23% of the Belgian market – and as the 60% owner of Avis Europe, the car rental business which had a London Stock Exchange listing. The Avis stake was sold in October 2011 to the US parent for €411million but D'Ieteren now has interests in two other specialist parts businesses, the auto distributor, some amazing heritage buildings and its own "morceau de détritus" (Moleskine) to remind the company to stick to its knitting.

As we will see, given the private equity shareholders, and the "peak" debt within Belron where two term loans ($1.58billion and $868million) totaling $2.45billion come due in April 2028 and 2029 respectively, it is not beyond comprehension that Belron may be floated as a public entity within the next two to three years and D'Ieteren sell down their stake a little further. Any bulge-bracket investment banker worth their salt will be on the doorstep of Rue du Mail[4].

To examine how Belron fits within D'Ieteren, we break the story into five pieces:

- The Belron back story;
- The rising valuation of Belron's equity via party-party transactions;
- Belron's financial growth with its acceleration in the past five years and perceived future prospects;
- How D'Ieteren has financially benefitted from Belron – arguably an even bigger story than Belron's growth and increased valuation; and
- Evaluating the current entry point to Belron via D'Ieteren.

The Belron back-story

The predecessor companies of Belron[5] were founded in 1896 and 1909 in South Africa. The Lubner family involvement commenced in the 1920's, alongside one of the two original founding families, the Brodie's. The development of the business accelerated as a supplier of vehicle glass to Ford and GM in the late 1920's and became a publicly listed entity Plate Glass and Shatterprufe Industries (PGSI) in 1947. In the early 1960's PGSI recognised there was a new emerging and large market in vehicle glass repair and replacement (VGRR); PGSI commenced acquiring other participants in the South African market and gradually started an overseas expansion. In tandem with Pilkington, the massive UK glass manufacturer, one of the first areas of expansion was Australia with a takeover offer for Frank G. O'Brien in 1972. The exercise ended in a stalemate with the offer being overbid by an alternative, but the Directors selling their shares to PGSI valuing the company (at $1.05/share) at A$14million. Three years later, having acquired 66% in the original bid, PGSI came back at $0.50 (not a misprint) to mop up the rest including the counter-bidder's 16.7% holding[6].

In 1983, the newly renamed overseas business (Solaglass) bought its first UK businesses – including Autoglass – and five years later expanded into Continental Europe with the acquisition of Carglass. To facilitate the exit of Pilkington from the domestic business in 1992, PGSI saw South African Breweries (SAB) acquire a majority of the public company, with the Lubner family still retaining over 20% and in the key management roles.

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[4] The HQ building developed in the 1962-67 period is a fabulous piece of architecture with offices on a plinth set behind the main entryways. It is now subject to a degree of heritage conservation but is to be redeveloped in keeping with the original building.

[5] Why Belron? BErtie Lubner, RONnie Lubner

[6] Oliver-Davey Industries, an Australian listed company at the time, were the over-bidder.

Solaglass became Belron and through the 1990's, the company made small acquisitions and then roll-ups in the USA to establish share in the largest global marketplace. In 1998, Belron merged its US business with the market leader Safelite to give the combined group a ~35% market share, but Belron owned only 45% of the business. It sold off the stake in 1999 but returned to buy Safelite *holus bolus* in 2007 for $334million (debt funded) after Safelite had been through a Chapter 11 bankruptcy restructuring.

D'Ieteren's entry point to Belron came in July 1999 when SAB decided to exit its 68% stake in PGSI valuing the equity of entire business at €340million (SAR2.13billion at the time); however, PGSI was heavily indebted to the tune of SAR2.4billion (~€390million). The takeover offer for the public business was done in tandem with Belgian investment company Copeba via a 70/30 JV company Dicobel.

If the 70/30 venture and high debt didn't make the analysis at the time messy enough, Dicobel only owned 78% of the key Belron asset, with the Lubners and Bordies owning the 22% minority. Additionally, the acquisition also included ~52% of Plate Glass Holdings, South Africa's main glass manufacturer.

D'Ieteren certainly knew its LBO maths. Dicobel was capitalised with subscribed capital of €249million, so the consolidated entity at 31 December 1999 – a few weeks after completion – was carrying €690million in net debt, albeit with > €260million of receivables.

Ronnie Lubner – one of the two patriarchs of the family with his brother Bertie – purchased the Plate Glass Holdings stake for €43million[7] in September 2001 – leaving the entity free to pursue the expansion strategy for Belron. Ronnie's son Gary Lubner moved in as CEO: he stepped down as CEO after 23 years in March 2023, and 35 with the company. Lubner (like his father and uncle) inculcated an extraordinarily strong culture, seen each year in his piece in the D'Ieteren annual report but most easily examined in an interview with a trade publication in 2004[8] [9]

Stakes in Belron have transacted at increasing valuations

The original structure of the Belron acquisition – with an auto-related conglomerate sat alongside a private investor, with the original family and management as a significant minority – meant a slew of related party agreements and options to sell at various times.

At the commencement in late 1999, D'Ieteren's effective stake in Belron was 54.6% (70% of Dicobel which owned 78% of Belron). The stake was increased by 2% in 2002 by Dicobel purchasing another 2.9% for an estimated €10.8million. From July 2004 to September 2009, D'Ieteren increased its effective stake in Belron to 90.2% via small purchases of the management minority stakes, one significant 12% purchase in July 2004 – at an effective Belron equity valuation of €625million, and the buy-out in steps of Copeba from Dicobel, the last of which in September 2009 valued Belron at €1,683million.

D'Ieteren's first moves to crystallise (part of) the benefit of Belron's increase in value came in November 2017 with the sale of a 40% equity stake at a price of €1,550million, representing an enterprise value of €3billion. The lower equity value than previously represents the level of distributions and returns which had been made over the preceding 8 years to the 90%+ holder, D'Ieteren (see below). Four years later, the buyer – Clayton, Dubilier and Rice – sold roughly half of its stake at an equity value of €17.2billion (enterprise value €21billion, a <u>seven-fold</u> increase over the four years) to the Hellman & Friedman, GSIC and Blackrock consortium.

[7] In June 2007, Remgro the South African investment holding company controlled by the Rupert family who also control Richemont bought 25% of Plate Glass Holdings and now own 38%

[8] Industry.glass.com/AGRR/Backissues/2004/0405/garylubner.htm

[9] Since leaving the executive side of Belron (he is a non executive Director) Mr Lubner was disclosed in early March 2024 as the largest donor to the Labour Party in the UK (£4.5million)

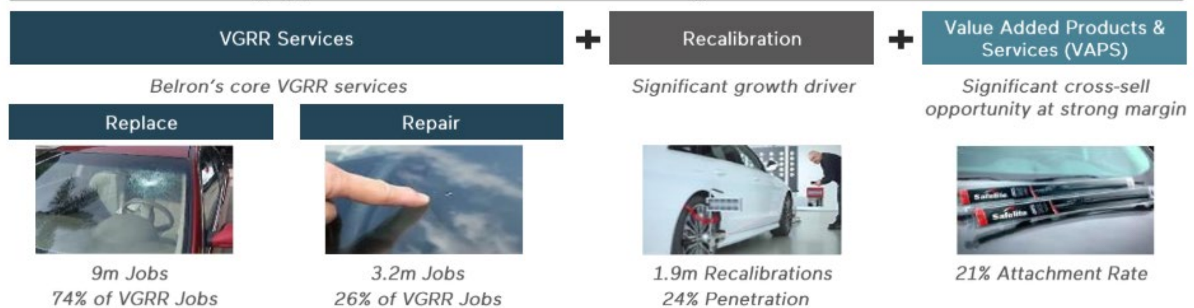
The table below illustrates the indicative equity prices and valuations of relevant tranches of Belron; as the gap between the 2009 to 2017 transactions show, the benefit to D'Ieteren – was proportionally GREATER as a result of dividends and capital returns.

Selected transactions of Belron equity[10]

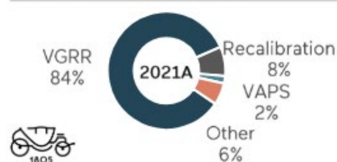
€million		Transaction value	stake	Implied 100% equity	Comments
December 1999	Original takeover	300	78.0%	385	Assumes €43million for Plate & Glass Holdings
2002 (est)	Dicobel buyers	10.8	2.9%	372	Purchase from minorities
July 2004	D'Ieteren direct	75.0	12.0%	625	Purchase from minorities
January 2005	Via Dicobel	25.7	5.53%	690	Via Dicobel, D'Ieteren from Copeba, adjusts for Dicobel debt
April 2007	Copeba sale	31.0	3.65%	850	Sale by Copeba to D'Ieteren
September 2009	Copeba exit	275.1	16.35%	1,683	Sale by Copeba to D'Ieteren
December 2017	D'Ieteren part sale to CB+R	620	40.0%	1,550	Sale by D'Ieteren to private equity
December 2021	CB+R to other private equity	2,890	16.8%	17,200	Sale within private equity group

What has changed between 2019 to 2024?

The foundations of Belron's more recent success were clearly laid from 1999 onwards, with acquisitions and capital expenditures, cementing the businesses market leadership in all ten of its key markets. VGRR is an industry where two types of networks really matter – relationships with insurers to recommend Belron's local operators in the replacement of vehicle glass and a large-scale network where the underlying customer chooses the company simply because of the convenience of a mobile visit. Adding in the ability to refit the widest variety of vehicle glass provides an obvious competitive advantage.



Revenue by Service



Service Delivery

Revenue by Channel

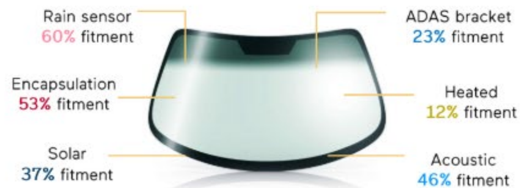
[10] Source: East 72 Management Pty Ltd compiled from company reports

Windscreen complexity increase driven by technology

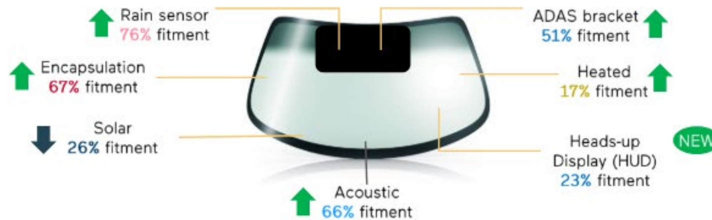
The 1990s windscreen

- Smaller total surface area
- Minimal technical complexity
- More simple curvature of glass
- Low/no encapsulation

The 2020 windscreen



The 2025 windscreen



D'Ieteren Group Investor Day 17

Source [11]

Belron: financials (100% basis) from 1999 change of control

€ million	(A) VGRR jobs (mn)	Revenue	(B) proxy revenue /job	(C) Operating profit	C) op mgn	finance cost	PBT (100% basis)	year end net debt	(D) capex	(D) acquisitions	Dividends & capital returns paid (D)	D'Ieteren share
Dec-99								624.4				
Dec-00	3.5	819.5	€ 234	48.4	5.9%			482.3				
Dec-01	3.9	911.8	€ 234	64.6	7.1%			387.1				
Dec-02	4.1	981.4	€ 239	74.3	7.6%	-30.8	43.5	358.7	51.6			
Dec-03	4.7	1061.1	€ 226	82.9	7.8%	-18.8	64.1	324.0	29.9	7.7		
Dec-04	4.8	1120.3	€ 233	95.6	8.5%	-14.5	81.1	269.2	23.5	9.7		
Dec-05	5.3	1253.7	€ 237	99.2	7.9%	-12	87.2	402.7	37.3	57.7	61.5	45.3
Dec-06	6.1	1507.3	€ 247	119.9	8.0%	-16.9	103	356.3	39.4	31.9	42.6	31.4
Dec-07	8.4	2000.0	€ 238	156.5	7.8%	-37.5	119	600.1	50.6	168.5	37.9	29.3
Dec-08	9.4	2156.1	€ 229	173.9	8.1%	-33.6	140.3	507.3	49.8	44.5	2.8	2.2
Dec-09	10.7	2423.2	€ 226	215.5	8.9%	-28.5	187	449.4	97.9	16.3	97.5	88.0
Dec-10	11.7	2800.9	€ 239	255.6	9.1%	-28.9	226.7	736.8	119.7	29.8	100.0	93.2
Dec-11	11.3	2769.0	€ 245	262.3	9.5%	-32.5	229.8	781.5	103.0	24.4	100.0	92.7
Dec-12	10.4	2727.2	€ 262	196.0	7.2%	-40.3	155.7	748.2	101.0	37.1	0.0	0.0
Dec-13	10.8	2843.1	€ 263	173.5	6.1%	-39.8	133.7	731.7	92.7	51.5	30.0	29.3
Dec-14	10.5	2796.2	€ 266	165.1	5.9%	-35.6	129.5	735.9	99.3	14.0	0.0	0.0
Dec-15	10.9	3161.2	€ 290	182.0	5.8%	-36.9	145.1	751.8	94.8	22.6	33.8	32.1
Dec-16	10.4	3305.4	€ 318	190.7	5.8%	-34.1	156.6	793.1	121.6	22.7	45.8	43.4
Dec-17	11.3	3486.2	€ 309	189.8	5.4%	-85.5	104.3	1271.8	139.7	50.2	508.7	482.5
Dec-18	12.2	3839.7	€ 315	225.7	5.9%	-81.3	144.4	1638.6	95.1	37.5	400.2	217.4
Dec-19	12.3	4228.1	€ 344	416.4	9.8%	-97.1	319.3	2324.4	70.4	199.9	839.9	460.7
Dec-20	10.7	3898.8	€ 364	583.9	15.0%	-121.7	462.2	2413.0	38.1	13.7	0.0	0.0
Dec-21	12.2	4646.8	€ 381	836.0	18.0%	-135.7	700.3	3794.9	71.0	17.8	1732.4	874.3
Dec-22	12.6	5574.3	€ 442	1016.7	18.2%	-150.6	866.1	4020.0	107.7	147.4	403.8	212.6
Dec-23	12.8	6047.7	€ 472	1239.5	20.5%	-222.6	1018	4689.8			1448.7	761.0
TOTALS									1634.1	1004.9	5885.6	3495.4

Source: D'Ieteren annual reports; Dicobel annual reports, lodgements with National Bank of Belgium

Notes:

(A) Vehicle glass replacement job numbers only

(B) A theoretical proxy number only derived from dividing total revenue into VGRR jobs but useful to illustrate higher revenues on slow growing underlying jobs

(C) Operating profit BEFORE adjusting items (stock options, amortisation, restructuring) which recur each year and can be meaningful

(D) derived from segmental cash flow statements of D'Ieteren; capex gross of equipment sales; acquisitions net of cash acquired

[11] D'Ieteren Investor Day 2022

But the explosion in profitability since 2019 – illustrated in the Belron financials above - has occurred on the back of a three-fold multiplication of operating margin, from just under 6% to over 20% in the past calendar year. This clearly reflects two aspects of the business which have long-term structural tail-winds: increasing value added services and technological change in windscreens. In effect, ADAS – Advanced Driver Assistance Systems.

The long-term tabulation of Belron's revenue (above) since the beginning of 2000 when D'Ieteren took its initial interest EXCLUDES "adjusting charges" which occur each year, are sometimes meaningful, but include a mix of cash and non-cash items. What is notable in recent years is the growth in overall revenue despite slow growth in the number of VGRR jobs, reflecting an increase in other value-added services. It is clear given the technology (and skill) required to refit and recalibrate, that Belron has significant pricing power in virtually all of its markets[12]

The near-term outlook for the company continues to be bright. At the recent 2023 results presentation[13], D'Ieteren management flagged that the company was on track to achieve its 23% operating margin goal in 2025 and that volume growth of ~ 5-8% sales growth was expected in CY2024 on the back of increasing ADAS volumes - mandated in many parts of Europe – and the necessity for recalibration of such systems. The company has experienced issues with technician numbers in the USA (58% of sales, but only 4.7% sales growth in CY24) but Europe (29% of sales) grew very strongly by 14.7%.

The broad-brush guidance from the 5 March 2024 briefing suggests Belron should record ~15% pre-tax profit growth in 2024 to around €1.15billion based on sales growth of ~7% but a further 100bp of margin expansion. The 2025 figures will crucially depend on how Belron allocate cash flow from the prior year – whether there are further dividend payments and capital returns or there is a debt paydown. Our preference would be to see a debt paydown; any very meaningful actions in this area may suggest the unit could be being readied for public markets.

Belron's cash flow is prodigious[14]. In FY 2023, Belron's after tax profit of €301m (after all adjusting charges) translated into €380million of free cash flow after capital expenditure of ~€100million and a negative working capital charge of €160million; in the preceding year, thanks to working capital being broadly stable, a €318million net profit translated to free cash flow of €439million after net capex of €61million.

An astonishing win for D'Ieteren

For D'Ieteren, the performance of Belron has been a gigantic windfall, which keeps on giving. We estimate that between December 1999 – having initially invested €175million for its 70% share of Dicobel being an effective 54.6% stake in Belron – and September 2009, D'Ieteren invested around €620million to get to ~90% of the company.

Since then, they have sold 40% of the company for €620million to CD+R; have extracted a total of €3.5BILLION in capital returns and dividends and retain a 50% stake last valued in a third-party transaction at €8.75BILLION - a total of €12.72billion. A 20-bagger over just less than 25 years.

Missed the boat completely? We think not.

[12] Belron is the market leader in USA (Safelite), Canada (Lebeau, SpeedyGlass), UK (Autoglass), Australia (O'Brien), each of Belgium, Neterlands, Italy, France Spain and Germany (Carglass)

[13] Full year results briefing 5 March 2024

[14] Note the segmental cash flows for CY2023 are not currently available

Entering Belron via exposure to D'Ieteren: the non-Belron businesses

To gain exposure to Belron requires you to take exposure to the other assets within D'Ieteren as well as its financial structure. Since the aim of our piece is to focus on Belron as an outstanding enterprise, we will only briefly describe the residual businesses.

D'Ieteren has four other business assets plus financial assets; two of the businesses have been acquired in the past two and a half years, but the management skill set required to administer them is entirely consistent with the group's core capabilities:

TVH (40%):

D'Ieteren acquired 40% of TVH[15] in late 2021 for a price of €1,172million from the vanHalst family; the founding Thermote family retain the other 60%. TVH is the world's largest independent supplier of after-market parts for material handling and construction equipment such as forklifts, scissor lifts and other "rolling" equipment. TVH are also a global top three player in the same market for tractors. TVH has a completely global platform, stocks ~1million separate items and is in 26 countries with revenue split c. 60/40 EMEA/America with a small percentage in APAC.

TVH was the subject of a cyber-attack in March 2023 which closed their systems for ~3weeks. As a results, operating profit in CY23 fell 16% from €260mn to €218mn. Guidance for the CY2024 suggests revenue growth of ~10% to €1.77bn and an operating margin around 14.5%. The business easily funds its capex requirements which have been running just below €100mn per annum from internal cash flow.

The price paid for TVH suggests an after tax P/E of around 16.7x on a normal year's pre tax profit of ~€250m which in our estimation is more than reasonable. Given the disruption to the business in 2023, to be conservative we have made no adjustments to acquisition price and hence valie D'Ieteren's equity stake at €1,170.

PHE (Parts Holding Europe):

D'Ieteren acquired PHE from Bain Capital in August 2022 for an equity value of €571m added to ~€1,130m of acquired debt for an enterprise value of €1.7bn. Management and staff own 9% of the business. PHE is an independent distributor of spare parts in France, Italy, Spain and Benelux. Given the strength of vehicle markets emerging from COVID PHE grew strongly in CY2023 with sales growth of 13% to €2.57billion with a 90bp enhanced operating margin of 9.1%. Despite a forced disposal in France for €90million, working capital effects restricted free cash flow and net debt remains at just below €1.2billion. Since the year end, PHE has refinanced two note issues of €960million pushing them out to a single 7 year loan.

Based on management projections of ~5% revenue growth and stable margins in CY24, the business should earn operating profit of around €244million, leading to a pretax outcome around €160million. Despite the modest multiples attached to these type of businesses, we believe PHE is still worth significantly more than the equity price paid, and value the company at an effective P/E of 10x.

Moleskine:

(Let's make it clear I love Moleskine products but they are expensive and I buy my notebooks from Muji or on occasional trips to Japan)

Despite the perception of the "heritage", Moleskine was only created in the mid-1990's by an Italian design company to recreate the heritage of oilcloth covered notebooks, usually bought in Paris. The idea was spectacular, and the trademark registered in 1996.

[15] Thermote and vanHalst

The same year, Syntegra Capital, a London based private equity firm (now closed) took an initial majority stake for €17million. In April 2013, Moleskine was IPO'd in Milan at €2.30 per share with an equity valuation of €487million and EV of €526million. Just over a year later, the shares were €0.95 as most investors saw the IPO as an effective sell out by the private equity groups. Surprisingly in September 2016, D'Ieteren reached agreement with Syntegra and co-holder Index Ventures to acquire their remaining shares (41% of company) for €2.40 apiece (a mere 12% premium to previous close) and acquired the whole company for €506million.

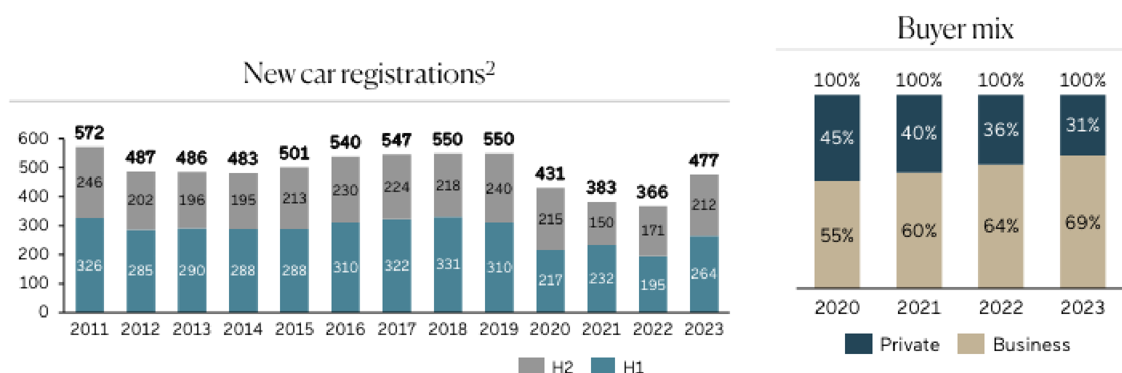
By 2017, operating profits were already falling (from €35m to €25m in two years) and the impact of COVID was devastating, with revenue falling 38% to €102million between 2019 and 2020. D'Ieteren has internally refinanced Moleskine's external debt and so the parent has a €22milion internal loan, on which it was paid interest in 2023 as the operating result stabilized at €23million.

Moleskine produces free cash before interest payments of ~ €24million per annum; we conservatively evaluate D'Ieteren's exposure (debt and equity) to Moleskine as being worth ~ €250million.

D'Ieteren Auto

D'Ieteren Auto is a predominantly wholesale distributor of Volkswagen Group (VW,Audi, Skoa, Seat, Cupra, Lamorghini, Bentley, Porsche) + Bugatti, Rimac and Microlino vehicles in Belgium. It is the 14th largest car dealer in Europe by 2022 revenues[16], and has around 24% of the Belgian market.

Like every global auto dealer, there has been a significant rebound in revenue and profitability as the supply chain crisis has eased and vehicles are sold through, and in common with others, low cash flow profitability in 2022 was replaced with high cash generation as working capital was liberated in 2023.



D'Ieteren Automotive historic results

€millions	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	(A) 2023
deliveries	112,877	111,667	114,978	122,489	125,229	121,855	129,575	104,710	92,732	89,469	124,929
new vehicle revenue	2,319.3	2,309.5	2,512.8	2,731.8	2,905.1	2,990.3	3,193.5	2,792.0	2,615.1	2,893.2	4,443.8
other revenue	308.1	351.0	361.4	382.4	394.6	413.7	441.4	423.7	623.8	716.3	852.7
Total revenue	2,627.4	2,660.5	2,874.2	3,114.2	3,299.7	3,404.0	3,634.9	3,215.7	3,238.9	3,609.5	5,296.5
revenue/new car	€ 20,547	€ 20,682	€ 21,855	€ 22,302	€ 23,198	€ 24,540	€ 24,646	€ 26,664	€ 28,201	€ 32,337	€ 35,571
Operating profit	46.7	53.3	66.5	75.8	95.2	113.0	119.1	95	102.7	146.5	222.5
Operation margin	1.78%	2.00%	2.31%	2.43%	2.89%	3.32%	3.28%	2.95%	3.17%	4.06%	4.20%
PRE TAX PROFIT	47.1	52.5	74.5	84.2	102.5	121.7	128.4	98.9	110.4	147.1	208.0
Notes:											
(A) 2023 new/used segmentals are East 72 estimates - figures unavailable at publication											

[16] Source: ICDP/Automotive News Europe

D'Ieteren expect the 2024 auto market in Belgium to flat line at around 480,000 new deliveries; their own profitability will likely be first half loaded given an order book of 58,000 vehicles, suggesting the 2023 performance could well be replicated, noting that the company is very much a business vehicles supplier.

There are a limited number of comparable listed vehicle suppliers, given many have a far larger proportional revenue from used cars. One of the UK's largest listed suppliers, Lookers, was acquired late in 2003 at ~6x pre tax profits.

We have lined up D'ieteren Auto with the Australian listed AP Eagers (APE.AX), given the strong market share and long term operating record; Eagers has a far higherrelative debt load but with A$11.3billion of revenue is ~30% larger than D'Ieteren (A$8.8bn equivalent). On that basis, we would value D'Ieteren Auto equity at just under €1.8billion, being around 12.5x equivalent after tax earnings.

Entering Belron via exposure to D'Ieteren: what are you paying?

At 31 December 2018, D'Ieteren's market capitalisation was €1,782million; it's now around €11billion. So we've categorically missed the boat?

For context, D'Ieteren's market capitalisation was around the same level as nine years prior. So for many years, there was no recognition of Belron slowly building its business. Of course, there was recognition of the Moleskine issues. As Belron's profitability has accelerated, that has been reflected to a degree in D'Ieteren's share price, notably in 2021, when the shares nearly trebled. But in our view, a proper recognition of the positioning of Belron and its longer-term value is not yet present in the market's pricing of D'Ieteren stock.

Based on our estimates of D'Ieteren's other businesses – which we tabulate below - we believe the entry price to Belron is an effective equity value of €12,750million, which compares to the last transactions in December 2021 at an equity value of €17,200million (25% discount).

Since then, the equity holders have extracted €1.85billion of dividends and capital returns – the split of which is deliberately obfuscated – suggesting a "base" price of €15.35billion for the equity. However, we expect 2024 pretax earnings from Belron to be €1.15billion against historic earnings of €866million when the deal was consummated.

Even attributing a 20x forward P/E – below many global markets – for Belron would give an equity value of €16.1billion after the recent dividend and capital strip. In our view, that seems conservative for a business with strong structural tailwinds, and strong market position.

€millions	Equity value estimate	
TVH (40%)	1,170	Purchase price late 2021
PHE	1,019	cf purchase price 571m in August 2022 (gearing)
Moleskine	250	Equity and loan exposure
D'Ieteren Auto	1,797	12.5x P/E
Cash	916	Excludes loan to Moleskine
Est. holding company costs	(310)	After tax estimate of €24million at 13x
Property	42	
TOTAL EXCLUDING BELRON	4,884	= €89.27/issued share (54.7million)
Current Market Capitalisation	11,259	Current share price €205.80
Implied value of Belron stake	6,375	50.01%
Implied value of Belron equity	**12,750**	**cf €17,200 in December 2021**

Reworking the calculations suggests that at current prices of D'Ieteren, we are gaining exposure to Belron at around 15.8x after tax equivalent earnings for CY2024. In our view, for such an outstanding business, that represents excellent value.

A full realisation of Belron by D'Ieteren is possible in due course, given that 2/3 of the other holders are effectively private equity concerns and may have a standard 5-7 year holding period. Whilst an ongoing listing of D'Ieteren is an inevitability, the chances of equity retirement in some manner if this were to happen is highly likely. Remember this is a family who have executed such strategies in their investee companies and **have not issued new shares of any consequence in D'Ieteren in at least the last 25 years**.

Monopolistic but regulated high margin volume growth. A new expanding airport. Bangalore

If you sat down to conceive of the perfect investment, how might it look? One interpretation would be that it has monopolistic attributes – the famous "only bridge into town.[17]" But further imagine your "unregulated" toll bridge was located in an area of rapid population growth of highly qualified people - an area of high tech and IT manufacturing. So your toll bridge is going to get ever more use - so you can build a second one next to it. Moreover, you could essentially build your monopoly "bridges" from the ground up with few (if any) legacy issues, using the latest technology to service an industry which cannot function effectively without the latest know-how.

Unfortunately, it's only a partial reality, but one which is priced at a discount to legacy assets in the same sector. Because this is <u>not an unregulated toll bridge</u>. It's rather that the toll is actually regulated but you can keep your customers on the bridge for very lengthy periods and they have to spend money at your shops.

BIAL is Bangalore International Airport Limited, operator of Kempegowda[18] International Airport located 40km from the centre of Bengaluru, India's third largest – but fastest growing city – with 14million people in its metro area, up from 6.5million twenty years ago. BIAL has a monopoly within a 150km radius until 2033 and has a 30 year concession with a further 30year option to operate Kempegowda. The airport has an estimated catchment area of 250million people (it's worth noting when you read the next section, how long any competing facility may take to be planned, let alone built when the monopoly expires).

The dynamics and analysis of Kempegowda are identical to most other "greenfield" airports – gradual expansion and use of adjoining vacant land to add non-airport revenues over time. It's a model seen elsewhere around the world in recent years, but for one exception: the numbers here are far bigger than anywhere outside the Middle East – and it is predominantly a domestic operation for the time being. Dare to dream of the word "hub" sometime down the track.

BIAL is now 13% owned by each of Karnataka State Industrial & Infrastructure Development Corporation and Airports Authority of India 13% - two Government instrumentalities. The remaining 74% is 20% owned by Siemens Project Ventures – part of the €134billion market cap Siemens AG – and through two entities by **Fairfax India Holdings[19]** (FIH-U.TO[20]).

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[17] Mr. Buffett was described to the *Wall Street Journal* by an investment banker as follows: "Warren likens owning a monopoly or market dominant newspaper to owning an unregulated toll bridge. You have relative freedom to increase rates when and as much as you want." While he disputed the accuracy of the quotation, Mr. Buffett concedes that remark correctly reflects his philosophy. BUFFALO COURIER-EXPRESS, INC., Plaintiff, v. BUFFALO EVENING NEWS, INC., Defendant. 9 November 1977 https://law.justia.com/cases/federal/district-courts/FSupp/441/628/1427583/

[18] Kempa Gowda is a 16th century feudal lord who founded Bengaluru

[19] Listed in Toronto but with a stock price and accounts designated in US$

[20] The "-U" represents the fact the shares are subordinated voting securities.

Fairfax India - a specialist holding company managed by the Toronto based Fairfax Financial Holdings (FFH.TO)[21] chaired by the ex-patriate Indian, Prem Watsa. FIH has a gross asset base of US$3.82billion (including cash of $175million) with borrowings of $500million and creditors of $120million, to make a pre-tax equity base attributable to unit holders of ~$3.06billion.

FIH's equity holding in BIAL is by far its largest asset, valued at 31 December 2023 at a carrying value of $1.6billion. There are twelve other assets of which five are listed companies. The two most significant of these are IIFL Finance and CSB Bank, each accounting for ~11% of assets at 2023 year end[22]. Based on the 31 December 2023 NAV of US$21.85 per share, FIH-U trades at a 32% discount to this stated figure. The magnitude of discount reflects four features:

- $800m of the $3.6billion of investments apart from BIAL are unlisted securities;
- Significant exposures to the finance sector (see footnote);
- The management fees on the fund are hefty at 1.5% per annum plus 20% of the return over a 5% pa hurdle rate calculated and paid at end of three year periods;
- Fairfax Financial's lock-tight control over FIH owning all 30million multiple (50votes/share) voting shares and 28.5million of the 105.4million single vote subordinated (publicly traded) shares. Hence, FFH controls just over 95% of FIH's votes.

Kempegowda International Airport – history, expansion and growth plans

Airports take forever to plan and build virtually anywhere in the world. Add in legendary Indian bureaucracy, and the process is elongated. However, once approved, construction moves rapidly. This is the summary story of Kempegowda[23].

With airline deregulation, lower fares, and specifically the growth of Bengaluru as a growth city for technology and manufacturing, in the late 1990's it became clear that the existing airport built in the 1940's close to the centre of the city (5km!) with a single runway and limited aircraft parking was becoming patently inadequate. Indian airport regulators formulated a plan for an entirely new airport eventually selecting a site 30km north of the city. Having spent eight years to get to this stage, the regulator decided on a public-private partnership.

The next period involved the establishment of BIAL and had attracted suitable partners by 2002; as with all greenfield airports globally, the key issue for investors revolves around the concession period and assorted other conditions. In this case, a key concession was to be the closure of the existing airport once Kempagowda was completed and opened. That took until 2004 to be agreed, with construction commencing in July 2005.

Kempagowda's first flight operations were in May 2008. The original plans intended capacity of 5million passengers per annum (**paxpa**); the old airport was already doing 8million and so the capacity of Kempagowda was lifted to 11million on opening and increased to 25million by 2013 via the extension of the existing single terminal.

[21] Also owned within Dynasty Trust

[22] Both companies have suffered share price declines since December. IIFL Finance shares are down 44% in Q1 CY2024due to Reserve Bank of India intervention preventing the company making new gold loans for the foreseeable future -a significant short-term impediment given the climate for gold investing. CSB Bank shares are down about 15%. The joint impact of these two moves is to reduce 31 December 2023 NAV by ~6.5% or $1.40

[23] The airport was not named Kempegowda until December 2013 but it is convenient to use the moniker

The speed of growth of the surrounding economy required further significant expansion which was approved in 2018 to provide a phased growth in passenger capacity to 90million paxpa by 2037 in stages – a $1.9billion equivalent investment to get to 50million by 2021 via a second runway and first phase of a second terminal (T2). The second $1.2billion phase of the second terminal is designed to increase capacity to 70million by 2028 and a third $600million phase envisages a third terminal to reach the 90million paxpa level.

Given the delays caused by COVID, T2 didn't open until January 2023, but is aesthetically staggering and replete with new technology using "Digi Yatra" – face recognition technology to speed screening and boarding procedures.

In the very long term, BIAL also has the benefit of 460acres (1.86million m^2) of undeveloped land adjoining the airport, the development of which is well behind schedule due to COVID. In the past year, there is more activity on this front with the land being shifted into a special purpose vehicle, with a central kitchen operated by SATS opened in March 2024, and printing facility and concert venue + extension to an existing luxury resort. The idea is to build a business park type facility adjacent to the airport – hardly novel, but proven to work.

As we discuss below, this development is important – and time critical to a degree - to build a stream of rental and other non-aeronautical revenues; like any other fledgling airport, the relevant authorities apply restrictions on the charges available to be levied on aircraft movements. There is usually some latitude given in the early periods to enable the airport to build up, but this period must be used to grown non-aeronautical revenues – retail and rentals inside the terminals and in Kempagowda's case the adjacent undeveloped land.

Regulated aeronautical revenue: airport bids and regulator offers are wide apart

We are very reliant on the financial data provided by Fairfax India as accessing BIAL annual reports is virtually impossible; moreover, BIAL's financial period is a March year-end, whereas FIH runs to a calendar year period – plus quotes figures in US$ rather than Indian Rupees (current US$1 = INR (₹)83.65).

As a starting point, in the 2023 calendar year, BIAL generated $305million in revenue, of which $159m came from aeronautical and $125m from non-aeronautical and $22million from other.

The tariff's charged on aeronautical revenues are set by (the regulator) Airports Economic Regulatory Authority of India (AERA). In broad terms, the tariffs are based on a "return on regulated asset base" system, but as would be expected in India, there are significant "tweaks" to the calculation of return, which bring non-aeronautical revenue into play. The return on regulated asset base is agreed by the regulator for a control period of five years; in the event that returns are over/under achieved, there is a true-up calculation into the subsequent period.

The process of "discussion" between BIAL and AERA is intense and the documentation pertaining to each sides "bid" (BIAL) and "offer" (AERA) is extraordinarily detailed, particularly showing one of the hidden costs of COVID being the need to estimate the true-up for BIAL in the period from 2021 – 2026 as a result of lower passenger numbers, the difficulty at the time of estimation and the deferral of capital expenditure (by ~2years) which pushes out the regulated asset base on which the return is earned.

Indeed, BAIL in a letter to AERA on 29 June 2021, notes that AERA's over-optimism on passenger numbers would potentially cause a debt default by setting the prices BIAL is able to charge at too low a level[24]:

[24] File No. AERA/20010/MYTP/BIAL/CP-III/2021-26 Airports Airports Economic Regulatory Authority of India 1 July 2021

> The Authority's proposal that
>
> - BIAL's domestic passenger numbers would grow from 27.78 million in FY2020 (Pre covid) to 48.55 million in FY2026, implying a 1.75X growth in 5 years and
> - International passenger traffic will return to FY2020 (pre-Covid 19) levels by FY 2024
>
> appears to be highly over-optimistic and will certainly ensure that BIAL would be faced with an under recovery of ARR during the 3rd Control Period in the event of non-achievement of traffic estimates, which needs to be trued up in the subsequent control period.
>
> Such an under recovery of ARR would result in BIAL defaulting on its loan covenants that need to be maintained under the financing agreements executed with project lenders for the Expansion Project. This is also likely to result in downgrading of BIAL's credit rating.

Any cursory analysis of the public documentation generated in 2021 for the current tariff structure is surprising to the non-Indian. The numbers turn out to be worse than useless on both sides! Whilst it would be expected that BIAL would put forward high costs of capital, low passenger numbers and a high cost structure, the bureaucracy in their submissions obviously fire in the opposite direction. As it turns out, BIAL are at least a year ahead of the agreed plan on passenger numbers, miles ahead of any expectations on non-aeronautical revenue, and run a cost structure well below that allowed for by the regulator.

Part of that is due to the "true-up" adjustments relating to COVID from the second control period tariffs (the prices BIAL can charge airlines using the facility) which ended in March 2021; some of the overearning will inevitably be recouped in the next five-year control period commencing in April 2026.

The current regulated pricing structure was established on 28 August 2021 by Order 11/2021-22[25] and uses a WACC of 11.59% on a regulated asset base averaging roughly ₹9,900cr (US$1183million) over the period to March 2026. AERA then hone this return down to a "rate card" which covers the price paid to BIAL for:

- Landing charges per aircraft based on maximum takeoff weight and origin (domestic or international);
- Rate per embarking domestic or international passenger (User Development Charge) noted in FIH annual reports;
- Parking fees for aircraft.

The rate card peaks out in the period between April 2025 to December 2025 having risen by 50% from the October 2021-March 2022 period to FY2025 (FY ends in March) and the first nine months of FY26.

We can estimate reasonably close approximations of aeronautical revenue as a result of the transparency of India's bureaucracy and the publication of the rate card, which marry up pretty well with the announced results.

Domestic aeronautical charge indicators
Assumptions: 80% load factors, domestic flights on Airbus A320neo carrying 155 passengers, maximum takeoff weight 79tonnes, turnaround to embark 155 pax onward flight

	Tonnage charge ₹	Tonnage cost	Embarkation ₹/pax	Embarkation cost	TOTAL	₹/pax (2 trips)	FX rate	US$/pax
FY22	207	16,353	184	28,520	44,873	₹144.75	74.51	1.94
FY23	260	20,540	350	54,250	74,790	₹241.26	80.37	3.00
FY24	365	28,835	450	69,750	98,585	₹318.02	82.79	3.84
FY25	510	40,290	550	85,250	125,540	₹404.97	83.65	4.84
FY26 (9M)	510	40,290	550	85,250	125,540	₹404.97	83.65	4.84
FY26 (3M)	355	28,045	385	59,675	87,720	₹282.97	83.65	3.38
FY26(total)		37,228	508	78,856	116,085	₹374.47	83.65	4.48

[25] Available at AERA web site (a mere 455 pages)

International aeronautical charge indicators Assumptions: 80% load factors, flights on Airbus A350 carrying 352 passengers, maximum takeoff weight 283tonnes, turnaround to embark 352 pax onward flight								
	Tonnage charge† ₹	Tonnage cost	Embarkation ₹/pax	Embarkation cost	TOTAL	₹/pax (2 trips)	FX rate	US$/pax
FY22	41k+552	142,016	839	237,437	379,453	₹539	74.51	7.23
FY23	44k+550	144,650	1200	339,600	484,250	₹688	80.37	8.56
FY24	66k+790	210,570	1400	396,200	606,770	₹862	82.79	10.41
FY25	68.5k+820	218,560	1500	424,500	643,060	₹913	83.65	10.92
FY26 (9M)	71.5k+855	227,965	1500	424,500	652,465	₹927	83.65	11.08
FY26 (3M)	50k+600	159,800	1050	297,150	456,950	₹649	83.65	7.76
FY26(total)		210,924	1387	392,662	603,686	₹857	83.65	10.25

† per tonne over 100T

For most of the forecast period, we assume BIAL has a passenger split of 90% domestic/10% international.

The forecast rate card shows that based on our estimated domestic/international split that in FY25 (just commenced) average aeronautical revenue per pax will jump from US$4.63 (assuming static exchange rate) to US$5.51; when added to our forecast of 5million additional passengers (39million to 44million) over the year, aeronautical revenue will jump by an estimated $80million in FY25. <u>This will be the peak "acceleration" year, as the rate card starts to level off</u>.

Passenger growth, non aeronautical revenue and timing of an IPO

In assessing BIAL's earnings beyond 2026, there are obvious complications – the third "control period" will have concluded and a fourth will commence in FY2027. There is some sense of what may happen in the paragraphs above which show the last three months of the current control period will operate with tariffs well below those currently prevailing.

Moreover, there is a key good news/bad news parameter. Passenger growth out of the COVID recovery has been far in excess of what BIAL wished to portray to the regulator. AERA compromised to some degree on its future projections but would not accept BIAL's projections of 32.5million for FY24 – in CY2023, the airport already had 37.2million pax – or 37.8million for FY25 and 44million for FY26. There is some justification for the low-ball numbers given that they were made in the first half of 2021, but AERA's numbers have proved far closer. Will the regulator believe they were partly duped when the tariff's are reset? In any event, there will be a likely take-back under the new deal.

FIH do allude to the sensitivity of cash flow to tariffs, but as late as the 2023 annual report (issued in February 2024) do not allude to the fact that the airport is significantly outperforming its projections upon which the regulator partly made their decision.

The good news is that non-aeronautical revenue[26] - which is directly proportional to footfall – should grow exceedingly strongly. In the past two calendar years, non-aero revenue has run at US$3.29 and $3.35 per pax. We would expect this to increase significantly; the star of India's airports in this respect is Indira Ghandi International Airport which in Q3FY24 ran with non-aero revenues at ₹404/pax (US$4.87) some 45% above the levels at Kempegowda. This partly reflects the 24%/76% international/domestic passenger split.

Further, as noted in the FIH annual report[27] 2024 is expected to see an acceleration in reveue generated from the adjoining real estate as new facilities are opened generating rental revenues. As the aeronautical rate card levels off, by FY27, we would expect to see non-aeronautical revenue exceed that from aircraft operations.

[26] Note that 30% of non-aeronautical revenue is considered by AERA as being aeronautical related in considering tariffs
[27] Fairfax India Holdings Annual Report 2023 page 10

Estimated profitability

Due to our expectations of significant growth of volume and rate card in the next financial year to March 2025, then further expected volume growth in FY2026 (44million to 49.4million), we expect EBITDA (at constant exchange rates) to increase by 25%pa to the end of the current control period to around US$310millon for FY26. We have had to make a number of cost estimates to arrive at this estimate; to date BIAL's cost base is well below either its own (to be expected) or AERA estimates (surprising) contained in the tariff order or prior considerations.

Fairfax India's progessive investments in BIAL and implied valuation

Fairfax India have made six tranches of purchases from March 2017 as follows:

	stake	US$mn	Vendor	Implied Value (US$mn)
March 2017	33%	335	GVK	1,015
March 2017	5%	50	Flughafen Zurich	1,000
July 2017	10%	200	GVK	2,000 (strategic premium – board seats)
May 2018	6%	67	Siemens	1,116
June 2023	3%	75	Siemens	2,500
December 2023	7%	175	Siemens	2,500

The investment is carried at $1.6billion for 64%, or an equity value of $2.5billion.

BIAL's debt structure[28] is comprised of a series of debentures amounting to ₹1,654crore (₹16.5billion = US$198million at current rates) plus cash facilities, corporate loan (State Bank of India) and term loans from State Bank of India, Caara Bank, Axis Bank, and Bank of Maharashtra totalling ₹10,656crore (₹106.6billion = US$1274million at current rates. We believe BIAL has cash of some ₹1,200crore (₹12billion or US$143million) suggesting a net debt exposure of ~$1,330million

Hence, Fairfax India's carrying value is estimated to imply an enterprise value of $3,830million; based on our estimates for FY2026, this implies an EV/EBITDA multiple of 12.4x for BIAL.

At end March price of $14.93, FIH trades at a 27% discount to stated NAV/share adjusted for the decline in prices of the listed IIFL and CSB Bank. If we apply that discount to the implied valuation of 100% of BIAL, investors are entering the airport entity at an equity value of $1.825million and current EV (2023 debt) of $3.155billion. This implies an EV/EBITDA multiple of ~10.2x EV/EBITDA.

On a comparative basis, this compares to listed airports like Flughafen Zurich at 10x, and Aeroports de Paris at 9.6x[29] - there are surprisingly few listed **single** airports with many of the listed companies being owners of numerous facilities, most obviously the largest listed group the €27billion Aena with its Spanish holdings (EV/2024 EBITDA ~10.4x 2024)[30]

There are other facilities with far higher valuations – the Bangkok listed Airports of Thailand (market capitalisation US$25.6billion) trades at a current year EV/EBITDA multiple of >22x reflecting the fact that revenues are still some 13% below the 2019 year (to September) levels[31]. The most recent corporate takeout in the listed sector was Sydney Airport in early 2022 when a domestic consortium acquired the facility for A$23.5billion equity value, an EV of $32billion representing 24.7x EV/2019 EBITDA of A$1.336billion[32]

[28] CRISIL ratings paper 25 September 2023
[29] Source: tikr.com consensus estimates FHZN.SW 2025E €770mn EV €7687m; ADP.PA 2025E €2,169m EV €20,863mn
[30] Source: tikr.com
[31] ibid
[32] Source: Company lodgments

Hence, in our opinion, an **implied** entry multiple of 10.2x for BIAL on current capacity, without the debt additions from an expansion to 70million passengers and on to 90million is more than reasonable. The chances of an IPO are very real but will require an acceptable order for tariffs by AERA for the five-year period commencing in FY2027 to achieve an outcome. It is unlikely that FIH would look to totally divest their stake in BIAL or that a high paying non-Indian PE firm would be the buyer. But with these type of assets….

Backing a long-standing Hong Kong family – with enormous margin of safety.

"Luxury hotels are having a glorious moment. Rich travellers mean rich returns for investors"

– "The Economist" 21 March 2024

When you look at the share price performance of this business, you could have fooled us.

By our reckoning, there are 58 publicly listed hotel groups around the world, ranging from Marriott International (market capitalisation US$72billion) downwards. The companies divide into various baskets, both in respect of "comfort" to ultra-luxury, straight accommodation to resorts and (especially) casinos, but more importantly from an equity investor's standpoint, ranging from property owners, franchisors, brand owners and managers. The economics of each are radically different ranging from asset heavy "rental" income through to asset-lite service income with a theoretically high return on capital.

There are very few combined property owner operators only, especially owning and operating an ultra-luxury but small network. Moreover, where these do exist, they are usually in Asia, are controlled by local families but often also have complex ownership structures and are intertwined with significant and undesirable commercial property ownership.

The Hong Kong and Shanghai Hotels Limited (0045.HK) (THKSH) has been around since 1866, was one of the first companies listed on the local stock exchange and has a colourful history - given its multi-national prime properties - which is scrupulously documented on its website.

However, THKSH shares have been rather less exciting than the company itself. Recent prices have seen them trading at levels last seen in 2009; indeed the current price is roughly equivalent to the level (HK$5.80 per share) in a general offer by the then 35% shareholding Kadoorie family to ward off a takeover offer from Lo Yuk Sui[33]; including various trusts in which the family has some entitlement, the "locked" shareholding was around 55% in 2007 and had crept up to 60% by end 2021. In January 2022, the Kadoorie's agreed to purchase 12% of the company – after shareholder agreement not to force a takeover offer was obtained – at HK$12.80 per share to take their holding to 72%. Sino Holdings (1221.HK) owns 5.1% of HKSH as a "long term investment". These appear to the foundation stones for a classic "value trap". That can't be ruled out but we see scope for a significant uptick in earnings, gradual improvement in cash flow and the potential to see a closing of the enormous gap between stated NAV and share price of these amazing trophy assets, for which Middle Eastern interests are currently ravenous.

Approaching the investment thesis

THKSH owns and operates 10 hotel properties with at least 50% ownership across four regions for a total of 2400 attributable rooms[34]. In addition, THKSH owns four retail arcades attached to hotels in the same proportional ownerships, two commercial office buildings in Hong Kong, two mainly residential complexes in Hong Kong and Saigon, a retail tower in Hong Kong and a mixed-use building in Paris. It also owns the Peak Tram in Hong Kong and a golf course in Carmel, California[35]. THKSH also owns 20% of the property and operations in Peninsula Paris and Beverly Hills.

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[33] Mr Lo controls Century City International Holdings Limited (333.HK), the controlling shareholder of Regal Hotels Limited (0078.HK)

[34] For example, Peninsula Beijing has 230 rooms, is 76.6% owned and so has 176 "attributable" rooms.

[35] Former mayor 1986 -1988 was a Mr. Harry Callahan using his real name.

At face value, THKSH looks extraordinarily cheap. At end March with the shares at HK$5.95 (market capitalisation HK$9,811million), this compares to the 31 December 2023 "fair value" net assets per share of HK$24.95 – a 76% discount; if we adjust for the net debt of HK$15,033 the notional asset level discount against assets of ~HK$55.65billion is about 55%.

We believe the reasons behind these enormous discounts are as follows:

- THKSH is a controlled entity via the Kadoorie family 72% holding; investors clearly believe, based on recent experience, that the company will continue to invest any spare cash flow in the properties themselves to keep upgrading them, rather than other initiatives (below);
- This is backed up by the fact that in September 2023, THKSH opened London's most expensive new hotel in Mayfair at a cost of £1,020million – spent over five years – upon which there is cynicism as to the likely return;
- The site itself cost £240million (HK$2,472million) in two tranches from Grosvenor Estates in mid-2013 and September 2016;
- The Peninsula London included 24 apartments, of which 10 are sold for proceeds of HK$2,298 million (roughly £23.25million each); a further 8 are pre-sold and at the last update 6 remain available – the residual 14 units are carried at HK$4.38billion – above the sale prices of those sold, which achieved an 11% margin;
- THKSH also built Peninsula Istanbul (50%) at the same time, stretching the balance sheet to an extent not previously seen, which inhibits a "conservative" boards willingness/ability to consider measures to retire ridiculously expensive equity;
- The two most experienced senior executives have recently retired leaving a <u>potentially</u> massive hole in management ranks: CEO Clement Kwok stepped down in October 2024 (but will remain to advise the incoming but not yet appointed CEO) and COO Peter Borer stepped down in July 2024 but is a senior adviser to the Chair (Sir Michael Kadoorie) for two years;
- The hit to the business directly from COVID as well as inconsistent measures in China, now seemingly settled from early 2023;
- The enormous 60%+ decline in profitability from the flagship Peninsula Hong Kong property since 2014;
- An increased unwillingness to invest in Hong Kong <u>or even contemplate doing so</u>, evidenced by the 18.9% decline in the Hang Seng index in the year to end March 2024, leaving it ~50% below the record high of January 2018; and
- The company has little analytical following which inhibits a more sophisticated disassembly of the businesses and capital structure.

One of the attractions of THKSH is that with geo-political fears, the Hong Kong assets seem to have "survivability"; too many of the other discounted price to asset plays in Hong Kong depend on "valuer valuations" for Hong Kong commercial property. Whilst THKSH has two commercial towers, their total valuation is a fraction of the entire company.

There **is** a need to take a sanguine view on Hong Kong residential property rentals since the group own eight towers, encompassing 484 apartments which it leases out, in two separate complexes in Repulse Bay, an expensive enclave on the Southern side of Hong Kong Island. The flip side of this – as we noted in Quarterly Report #1 (March 2023) in discussing Société des Bains de Mer – is that investors struggle to value <u>high end</u> residential properties held for lease within public companies.

Whilst our methodology would horrify THKSH executives and controllers, we aim to dissect the company into its stakes in hotels and treat the other assets as "non-core"; we accept treating the residential business in that manner when it is an enormous cash flow producer seemingly makes little sense, <u>but the key exposure we want are the ten core Peninsula Hotel operations plus two 20% associates</u>.

Our thesis is assisted by the glorious disclosure of THKSH – we have rarely come across a trophy asset owner with such detailed and transparent disclosure[36] (and luxurious pictures in the annual report). THKSH report consolidated earnings from eight of the hotels, then treat the 50% owned Istanbul and Shanghai, together with Paris and Beverly Hills as associates. Since the non-hotel businesses outside Hong Kong are relatively small and don't make significant profit, we can derive a reasonably (but not 100%) accurate picture for the profitability of the flagship Peninsula Hong Kong from the segmental accounts presented by the company.

These segmental accounts show a core reason for our interest and the approach mapped out: the hotel business ex-Hong Kong is now a more proportional contributor to EBITDA[37] than ever before as illustrated below:

THKSH Segmental EBITDA contributions

HK$mn	Clubs & services	Property	Hong Kong "other"[A]	Hong Kong Total[B]	Proxy Peninsula HK[C=B-A]	Non-Hong Kong Hotels[D-C]	Total Hotels[D]
2009	81	386	467	886	419	13	432
2010	109	425	534	995	461	143	604
2011	125	453	578	1099	503	102	605
2012	135	471	606	972	384	212	596
2013	144	484	628	1080	452	197	649
2014	130	524	654	1219	565	253	818
2015	132	555	687	1223	536	177	713
2016	121	518	639	1095	456	331	787
2017	132	558	690	1169	479	414	893
2018	158	527	685	1213	528	548	1076
2019	105	584	689	950	261	617	878
2020	-11	452	441	579	138	(582)	(444)
2021	72	327	399	460	61	129	190
2022	1	279	280	357	77	234	311
2023	115	386	501	720	219	493	712

Source: THKSH Company reports compiled by East 72 Management Pty Ltd
(2009-2015 are actuals, 2016 onwards proxied)

The table shows that 2018 might realistically be the last "normal" year for THKSH when all the businesses were firing, prior to specific issues in one market or other beyond that point. At that stage, Peninsula Hong Kong was <u>half the global hotel EBITDA</u> because HK was buoyant AND Peninsula Hong Kong has a far wider revenue base of adjoining shops (classed as hotel income), functions and other non- room/food & beverage profits. Hong Kong declined sharply from 2019 as a result of the protest movement and policing tactics in that year followed by COVID and the volatile measures adopted by the authorities. The table illustrates that Peninsula Hong Kong is estimated to be 60% less profitable than it was at its peak in 2014.

So at current earnings rates, it's not a HK hotel business you are buying – in essence, a big recovery in Peninsula Hong Kong is effectively <u>an option</u>, because there is real growth elsewhere.

[36] This piece took longer to write than usual such was the available detail and new "rabbit hole" to investigate

[37] Yes, we are embarrassed to use EBITDA but that is THKSH segmentation metric but are VERY cognisant of the total nonsense EBITDA represents in hotels, but discuss capex later

The hotel business is starting to improve sharply

We have adopted THKSH methodology for analysing the hotel properties as presented in their segmental accounts. The twelve Peninsula Hotel locations are tabulated below:

	Rooms	Owned		Attributable rooms	CY2023HK$ million total revenue (100%)	TOTAL RevPAR (HK$)[38]	Fair value (100% basis)[d] HK$million
Hong Kong	300	100%	Long term lease[a]	300	1,039	9,489	12,322
Beijing	230	76.6%	Short term lease	176	328	3,907	1,047
Manila	351	77.4%	Lease expiry 2026 from Ayala Land	272	224	1,748	45
Tokyo	314	100%	Long term lease[a]	314	741	6,465	1395
Bangkok	370	100%	Freehold	370	207	1,533	642
New York	233	100%	Long term lease[a]	233	766	9,007	2,129
Chicago	339	100%	Freehold	339	617	4,986	1,227
London	190	100%	Long term lease[a]	190	129[b]	6,172	8,201
TOTAL	**2,327**			**2,194**	**4,051**		**27,008**
Shanghai	235	50%	% property owned THKSH operator	118	460	5,363	2,706
Istanbul	177	50%	% property owned THKSH operator	88	191[c]	3,362	2,147
Beverly Hills	195	20%	% property owned THKSH operator[e]	39	616	8,655	2,771
Paris	200	20%	% property owned THKSH operator[f]	40	714	9,781	4,600
TOTAL	**807**			**285**	**1,981**		**12,224**

(a) lease over 50 years (b) from 12 September 2023 (c) from 14 February 2023 (d) per THKSH accounts
(e) 80% Katara Hospitality (Qatar) - 100% equates to €545million
(f) 80% Zarnigen brothers (California property moguls) - 100% equates to US$355million

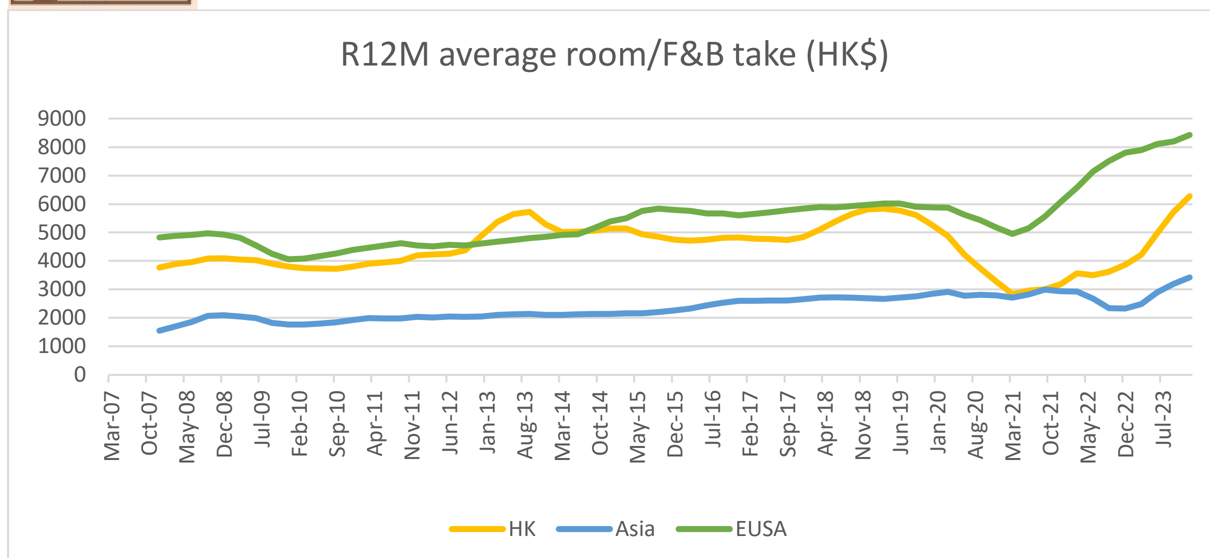
At the most basic level, even if THKSH wasn't an owner/operator of upscale hotels, its earnings over the next 2-3years have significant leverage from an extreme base effect, especially in 2022 but still prevalent in 2023. In 2023, of the ~850,000 room nights[39] within the consolidated hotels, we estimate THKSH only had just over 760,000 available as a result of the new London open and China/HK COVID restrictions.

Whilst tourists are flocking back to Europe, Asia is a different matter with isolated hot spots but Greater China being a more difficult "sell" at the present time. This was acknowledged by management in the 2023 earnings call that geo-political circumstances brought about by difficult to judge fluctuations in China's economic and political policy – not least COVID strategies, has deterred tourism and business. Around 23% of consolidated THKSH room nights are attributable to Greater China. However, there are major bright spots especially Tokyo which benefitted from strong tourism back to Japan as well as more buoyant business conditions enabling a massive increase in average room rate plus greater occupancy.

In our view, what has been missed by investors has been the significant lift in average room rate across the group. To some degree, these rises in room rates are to compensate for inflation, notably of wages. The graphs below map out rolling 12month room rates across the three geographic categories THKSH disclose each quarter:

[38] This is total revenues not just room revenues; we estimate room revenues for CY2023 were $2,063million and room+food/beverage were $3,278million being 81% of the total.

[39] 2327 x 365=849,355



Source: THKSH quarterly company reports compiled by East 72 Management Pty Ltd

In compiling our estimates for CY2024, we are conscious that Q4 is typically the strongest room rate quarter, but it is clear from the smoothed numbers that THKSH in 2024 should experience the triple upside of full years in London (and Istanbul in associates), higher occupancy and higher room rates. On this basis, we expect revenue from the consolidated group of hotels (on a 100% basis) to increase from HK$4,174million to around HK$4,800million in CY2024; about HK$500million of this comes from a full year of London, assuming a 55% occupancy rate[40].

Historic composition of consolidated hotel revenues

HK$mn	Room	F&B	Shops	Other	Total	Room %age	F&B %age
2009	1,355	987	556	282	3,180	42.6%	31.0%
2010	1,549	1,123	567	337	3,576	43.3%	31.4%
2011	1,642	1,175	597	352	3,766	43.6%	31.2%
2012	1,637	1,232	639	377	3,885	42.1%	31.7%
2013	1,768	1,218	687	371	4,044	43.7%	30.1%
2014	1,889	1,239	747	385	4,260	44.3%	29.1%
2015	1,765	1,168	761	379	4,073	43.3%	28.7%
2016	1,812	1,173	691	364	4,040	44.9%	29.0%
2017	1,912	1,246	643	388	4,189	45.6%	29.7%
2018	2,141	1,330	625	438	4,534	47.2%	29.3%
2019	2,014	1,229	618	427	4,288	47.0%	28.7%
2020	470	448	511	165	1,594	29.5%	28.1%
2021	808	683	519	253	2,263	35.7%	30.2%
2022	1,284	892	532	287	2,995	42.9%	29.8%
2023	2,063	1,215	529	367	4,174	49.4%	29.1%
AVERAGE						**43.0%**	**29.8%**

[40] We would be delighted to underestimate this given the room rates in the hotel and the gradual wind-down of opening "offers"

It should be noted that Peninsula Hong Kong derives significant revenue (>70%) from shopping and "other" which dulls the leverage impact of higher room rates but increases overall margin.

We expect EBITDA margins within the consolidated group to improve given a longer period of higher room rates – note the gradual acceleration of room rates during CY2023. In the past (i.e pre 2019) EBITDA margins in the consolidated group have been as high as 20.7% (2018) and were significantly higher in the associates (see below). We expect an improvement on CY2023's 15.1% EBITDA margin to ~17% over the course of CY2024, suggesting EBITDA from the consolidated hotels will rise by 28% from HK$633million to HK$814million.

The associate hotels will benefit from an extra six weeks of Istanbul, a hopeful absence of another devastating earthquake, but most obviously the Paris Olympics, where the property is sold out for the relevant period, and we can't imagine at discount rates. Margins should be higher as a consequence. We estimate attributable revenues from the properties to aggregate to HK$646million in CY2024 (HK$591m in 2023) with EBITDA of $103million, up from HK$79million in CY2023.

The fair value estimates within THKSH annual report attribute a proportional value of the hotels of HK$30,654million. This equates to a forward EV/EBITDA multiple of 33.4x. Such multiples might be reasonable for "trophy assets" but, in our view, are way above the metrics we could reasonably attribute.

The good news is that the price of THKSH shares is not asking is to do so.

What are we paying for the twelve core hotel properties?

At a share price of HK$5.95, we are paying a enterprise value for the assets of $24,844million. The tabulation below suggests the value is entirely covered by assets outside of the 12 core hotel properties/operations and **that we are obtaining these amazing assets for less than zero**:

HK$million	**Conservative Value**	**Comments**	**Fair value per THKSH accounts for 100%**
Office property:			
St Johns Building	940	HK$47m revenue at 3.5% yield and 70% P/value (in line with office REITS)	1,174
Repulse Bay	1,400	HK$60m revenue at 3.0% yield and 70% P/value (in line with office REITS)	Embedded in Repulse Bay complex (say HK$2,000)
Residential:			
Repulse Bay complexes	16,400	484 apartments at average HK$98k/month Implied sale price HK$38.1mn (US$4.87mn) est 3.1% yield	Embedded in Repulse Bay complex (say HK$16,424)
Other:			
London apartments	3,152	Prior sales less 2% costs	4,382
Yangon development	-		122 (x 70%)
Peak Tower (retail)	1,418	Equates to 9% revenue yield	1,418
Quail Lodge Golf	140	BV = US$36m, loss making bought 1997. Revenue HK$228m (US$29m)	282
Vacant land	-	Thailand	91
Own properties	188	Book value not fair value	403
Paris – 21 avenue Kléber	474	2013 acquisition price (€56m) – adjacent to Peninsula	674
Apartment assets	200	Shanghai (7 – none sold 2023) and Ho Chi Minh City = 50% of book	385
Other business (Peak Tram, merchandising etc)	600	HK$600million revenue est EBITDA >$100m	-
Other assets	**6,172**		**7,720**
TOTAL NON HOTEL	**24,912**		**>27,318**

Even if we were extraordinarily harsh and **discounted our value of these assets by 50%**, at HK$5.95/share our entry price (including debt) to the hotel business would be around HK$12.4billion, against THKSH share of fair value of HK$30.6bn[41] or a 59% discount. Such an attributable value would equate to 13.5x EV/EBITDA, a reasonable value for such assets in only the second year of uplift from the devastating impact of COVID and related restrictions.

Have there been other relevant transactions?

Given the trophy asset nature of THKSH portfolio, there are always few comparative deals; the more so in 2023 given the impact of rising interest rates deterring buyers. However, there were four transactions which stand comparison with THKSH portfolio during 2023 as follows[42]:

	rooms	brand	location	price	US$ equivalent	US$ per key	Buyer
January	172	Hoxton	Paris	combined €260million	Combined $281mn	$993k	Schroder Capital
	111	Hoxton	Amsterdam				
February	428	Westin	Paris	€650million[a]	$702mn	$1,640k	Dubai Holdings
July	120	Mandarin Oriental	Barcelona	€240million	$260mn	$2,167k	Olayan Group (Saudi Arabia)
December	1726	Rocco Forte (14)[b]	Various: 9 in Italy	£1.4billion inc.£200m debt[a]	$1,764mn	$1,022k	Public Investment (Saudi Arabia)
	2,557				**$3,007mn**	**$1,176k**	

(a) attributable 100% value for purchase of stake
(b) includes Browns, London 115 rooms

THKSH holds 2,469 attributable rooms, with a fair value in its books of HK$30,654 equivalent to US$3,920million or US$1,588k per room. This suggests the valuers are well on top of prevailing transactions, with due regard to the premium nature of THKSH portfolio.

However, at prevailing THKSH equity prices, we are acquiring the portfolio at US$1,586m or US642k per key if you apply a 50% discount to the values we attributed to the non-hotel assets. (Of course, if you accept those non-hotel valuations, you get the hotels for nothing!!)

Is this just a value trap presided over by an 83year old patriarch?

This is 83year old Sir Michael Kadoorie's baby, and given the family own 35% of China Light and Power (CLP Holdings, 0002.HK) the electricity supplier to Kowloon and New Territories, a stake worth HK$55billion (US$7bn), if the hotel business teeters, he is hardly going hungry.

But the return on assets is very low, befitting their trophy status – sub 3% at the EBITDA level, but rising. "This is a company that looks 100 years ahead" according to the patriarch[43]and based on the history, it's hard to argue. So are we stuck in a company where the patriarch will just spend the cash flow on renovating the assets to the highest possible level, when for the 28% minority shareholder base, it is inarguable looking on a long-term view that THKSH should be retiring its equity given the implied discounts to realisable value?

The company has spent an average of HK$500million a year over the past fifteen years on capital expenditure on existing assets – including the Peak Tram - let alone the financing of new structures such as London. In fairness, this has been <u>broadly</u> in line with the annual depreciation and amortisation charge over the period.

Of course, the new assets and tough trading conditions mean that net debt has trebled since 2017.

[41] Proportionalised page 107 Annual Report 2023
[42] Co-Star/Hotel News Now reworked by East 72 Management Pty Limited
[43] Financial Times interview (with brilliant pictures) "The Kingdom of Sir Michael Kadoorie" 21 March 2023

We are hopeful that the debt load, the need to bed down the two new hotels, and to settle in new management, replacing multi-decade veterans, will lead to a period of less robust capital spend, with the exception of an upgrade to the New York property.

The company is well versed in working with partners and one Middle Eastern majority property owner (Paris, Qatar) already[44]. Is it beyond the realms of possibility for an investor from that part of the world to spot the opportunity and work up a transaction on a friendly basis, to take a significant stake at a discount to overall value but a premium to prevailing prices whilst leaving the Kadoorie's to do their stuff? Or that one of the properties is realised, providing greater flexibility and some of the funds applied to a share buy back?

We can see a myriad of opportunity, a huge margin of safety, and despite the ostentatious nature of the assets, have some level of confidence that some of the cash generated will find its way back to shareholders through a significant upswing in earnings over the next 2-3 years. If China moves back into favour, such an upturn may be especially sharp.

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[44] The 80% owners of the Beverly Hills property, the Zarnigen family, have some commonality with the Kadoories, their parents being Jewish emigrés from the Middle East, in their case Iran, rather than Iraq.

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