We like this company because of its incredibly low labor cost vs. the competition, and bought our maximum size of 15% of portfolio at cost.

MOI: Are there any instructive English-language resources that you could refer investors to who are interested in learning more about Thailand and related investment opportunities?

Barnett: Bloomberg has data on every Thai listed company, the Stock Exchange of Thailand has live streaming of quarterly company earnings announcements (http://www.set.or.th/set/oppdaybyperiod.do) and many international brokers (Goldman, Merrill Lynch, Morgan Stanley) write research on the larger, more liquid Thai companies.

MOI: Thank you very much for your time and insights.

Wong Yu Liang & Victor Khoo, Managers, Lumiere Capital

We recently had the pleasure of interviewing Wong Yu Liang and Victor Khoo, co-founders and fund managers of Lumiere Capital based in Singapore. Lumiere, established in 2007, invests in undervalued equity securities in Asia, combining bottom-up analysis of individual stocks and contrarian thinking.

The Manual of Ideas: Please tell us about your background and how you became interested in value investing.

Wong Yu Liang and Victor Khoo: We started our value investing journey in 2001 after being inspired by the writings of Warren Buffett and Benjamin Graham. The scientific approach of assessing the intrinsic value of a company and buying at a substantial discount to intrinsic value appealed to us immediately. We have always liked hunting for bargains in all areas of our lives and value investing is a natural extension of that personality make-up.

"Our primary source of ideas is from reading corporate announcements and annual reports, especially during the earnings results season, because this will allow us to pick up ideas that may not be found using valuation screens…"

MOI: What are some key differences between the Asian and U.S. equity markets? Which aspects do you think are generally misunderstood by U.S. investors who invest in Asia?

Lumiere: The U.S. market is more developed, transparent and has greater extent of corporate disclosure than Asian markets. Investors are able to rely on published information on the U.S. market more in making the investment decision, as there is a greater depth of information made available. The information is also somewhat more reliable as there are more stringent reporting requirements in the U.S. Another difference is U.S.-listed companies tend to be run by a professional management team compared to Asian listed companies which have a higher proportion that are controlled by the founding families of the business. U.S. investors who invest in Asia may believe that the quality of information released by Asian companies is as transparent or as reliable as that disclosed by U.S.-listed entities, which may not be true. A lot more work needs to be done to establish the veracity of information and accuracy of facts. Another misunderstanding is that shareholder activism, which works well in the U.S. in unlocking value, does not work as well in Asia due to cultural differences and the fact that a lot of companies are family owned or controlled.

MOI: How do you generate investment ideas in Asia? Are there any differences between your home market Singapore versus other equity markets in Asia that have implications for how you approach each market as an investor?

Lumiere: Our primary source of ideas is from reading corporate announcements and annual reports, especially during the earnings results season, because this will allow us to pick up ideas that may not be found using valuation screens or from the media or broker reports. We look primarily at the Singapore and Hong Kong markets which have similarly high standards of corporate disclosure hence the approach is pretty similar. For other markets like Indonesia and Malaysia, we will scrutinize corporate governance and management motivations a lot more closely.

MOI: What are some major sources of equity mispricings that occur across Asia and that you are looking to exploit?

"Equity mispricings can come from a few sources – growth that is underappreciated by the markets, or risk that has been misunderstood by investors, or a business that has suffered a temporary setback and is turning around, or assets that are not reflected on the balance sheet at true market values, or restructuring plays where previously inefficient operations were overhauled to create a new leaner company which is more focused on the business."

Lumiere: Equity mispricings can come from a few sources – growth that is underappreciated by the markets, or risk that has been misunderstood by investors, or a business that has suffered a temporary setback and is turning around, or assets that are not reflected on the balance sheet at true market values, or restructuring plays where previously inefficient operations were overhauled to create a new leaner company which is more focused on the business.

MOI: Would you elaborate on the previous question by way of a past case study and lessons learned from it that you can apply to future opportunities?

Lumiere: One of the companies we invested in, **APT Satellite** (Hong Kong: 1045), could serve as a good case study of a growing company that is underappreciated by the market. The market has also misunderstood some of the risks facing this company, hence further contributing to its undervaluation. APT Satellite operates three satellites with coverage over Asia Pacific, Middle East and Africa. Due to the its stable long-term contracts with a blue-chip client base which includes HBO, Sony and Walt Disney, the company has a recession-proof business that is poised to benefit from the rising demand for high definition TV content. Over the period of 2008–12, APT's business grew rapidly, with revenue increasing 120% and net profit increasing by 7-fold. We started buying APT in September 2010 at $2, paying a cheap valuation of 6.2x P/E, 2x OCF and 0.5x P/B then. Despite the low valuation and good growth prospects, APT fell to as low at $1.08 in September 2011 after our initial purchase. We continued buying more of the stock, eventually lowering our average cost to $1.70.

APT's valuation stayed low in 2010-12 as most investors were concerned about the large amount of capital expenditure for the two satellites that it was building then (first one to be launched, the other as a back-up). Although the capital outlay was large, APT had signed an agreement with its parent company to sell the back-up satellite to them at cost once the first one was launched successfully. As such we believed the market had overestimated the risk facing this company. The first satellite was successfully launched in April 2012 and the back-up satellite was eventually sold to recoup the investment, thus lifting the overhang. We exited the position fully in early 2014, realising a 4-fold return over a 3-year holding period. The lesson here is: value investing works, but it needs patience.

MOI: What is the biggest mistake foreign investors make in Singapore or other parts of Asia? What do you do to avoid making the same mistake?

Lumiere: In Asia, one cannot just rely purely on the published financials. It is important to also look at management's track record and the way they treat minority shareholders.

Many years back, we owned a Singapore-listed company which designs, manufactures and distributes home furniture in China. Manufacturing in Dongguan, China, this company enjoys relatively low production costs. Its use of readily available raw materials such as MDF and fabrics makes it less susceptible to fluctuations in raw materials prices. With over 100 stores in 66 cities in China and a good range of simple, stylish yet affordable products, it reminded us of IKEA. Back in 2007, housing starts in China was still growing well, so we believed that its affordable furniture would enjoy strong demand given the relatively modest incomes of the general Chinese first-time homeowners. This company had listed for less than a year, but the stock was trading at 4.5x PE, 1x NTA and had half of its market capitalization in net cash, so we felt that the extremely low valuation gave us a huge margin of safety. Furthermore, the founders also did not sell any vendor shares during the IPO, so it didn't seem like they were trying to cash out. The share price dribbled lower after we invested and the founding Chairman sold out half his stake instead of buying back shares. That immediately raised a huge red flag. We did a conference call with their CFO, who was not able to give us a satisfactory answer as to why the Chairman was selling out. Despite sitting on losses, we immediately sold the position. Today, this company trades at a fraction of the price we sold out at.

Today, we do not invest in companies that are listed for less than 2 years, preferring to wait for the company and its management to prove themselves and also to ascertain their treatment of minority shareholders before we will consider investing.

MOI: Would you briefly share one of your current investment ideas in Asia.

"One stock which we feel is currently significantly undervalued is Rexlot Holdings (Hong Kong: 555). Rexlot is the market leader for Welfare Computer Ticketing Games (CTG) services with a monopoly position in 17 provinces in China."

Lumiere: One stock which we feel is currently significantly undervalued is **Rexlot Holdings** (Hong Kong: 555). Rexlot is the market leader for Welfare Computer Ticketing Games (CTG) services with a monopoly position in 17 provinces in China.

It provides the ticketing hardware to the state Welfare lottery and receives a 1% commission on ticket sales. The company also supplies the ticketing terminals for the Sports Lottery. At the same time, Rexlot also has a scratch-card lottery distribution business with over 80,000 points of sales via tie-ups with China Post, Petrochina, Sinopec, major supermarkets and convenience stores where it receives a 2.5% commission of sales and it shares part of its commission with the partners. In addition, the company also sells single match games via 50 physical outlets, call centres and online website (okooo.com) in 7 provinces where it gets a commission of 4.5% of sales.

The lottery market in China grew 18% in 2013 and is expected to continue posting strong growth in the future, due to economic growth and the current low per capita spending on lottery in China. China's lottery spending per capita is only US$25, compared to US$178 in US, US$433 in Spain and US$900 in Singapore. In addition, the World Cup in 2014 will give single match games a big boost.

Rexlot now trades at 9x current year earnings, which is cheap for a company which is a market leader in a strong growing industry. Management has also committed to increasing its dividend payout ratio from 20% in FY12 to 50% by 2014, which would give it a 5% dividend yield.

MOI: Thank you very much for your time and insights.