

Open Letter to Zagro Asia about Proposed Voluntary Delisting

The proposed voluntary delisting at 30 cents came as a surprise to us. It deeply undervalues what is an intrinsically high quality business.

In our opinion, a conservative appraisal of Zagro Asia would yield a valuation of at least 35 - 40 cents.

First off, let me congratulate management for running a tight ship. For ten years, you have grown the earnings of the company consistently, even through tough times.

In the FY 2005, you earned \$3.14 mil, and in the FY 2014, you earned a profit of \$7.23 mil. In those ten preceding years, you have never recorded a loss, and have paid out a dividend in every one of those ten years.

More impressively, you have done so without the excessive use of leverage, and maintained an average Return on Equity (ROE) of over 11%.

These numbers are highly impressive, and few listed companies in Singapore can match your track record in the industry.

Summary of Zagro Asia Financial Results¹

	2014	2013	2012	2011	2010
Earnings per Share / cents	2.8	3.9	3.3	3.8	3.7
Dividend per Share / cents	1.0	1.0	1.5	1.0	1.0
Return on Equity / %	8.2	12.0	10.9	13.4	14.5
Net Asset Value / cents	34.3	32.3	29.9	28.0	25.6

	2009	2008	2007	2006	2005
Earnings per Share / cents	2.4	3.0	2.3	1.7	1.3
Dividend per Share / cents	1.0	1.0	1.0	1.0	1.0
Return on Equity / %	10.3	14.0	11.4	9.0	7.1
Net Asset Value / cents	22.8	21.4	19.8	18.4	17.6

The Offer Grossly Undervalues Zagro Asia

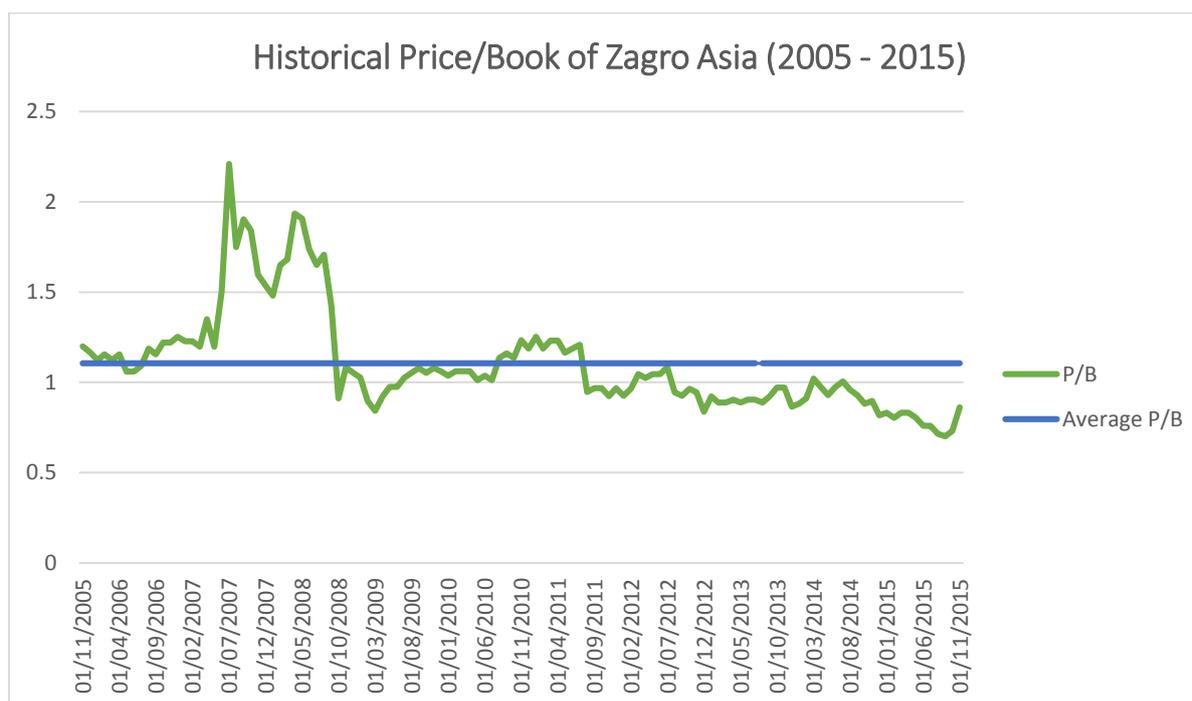
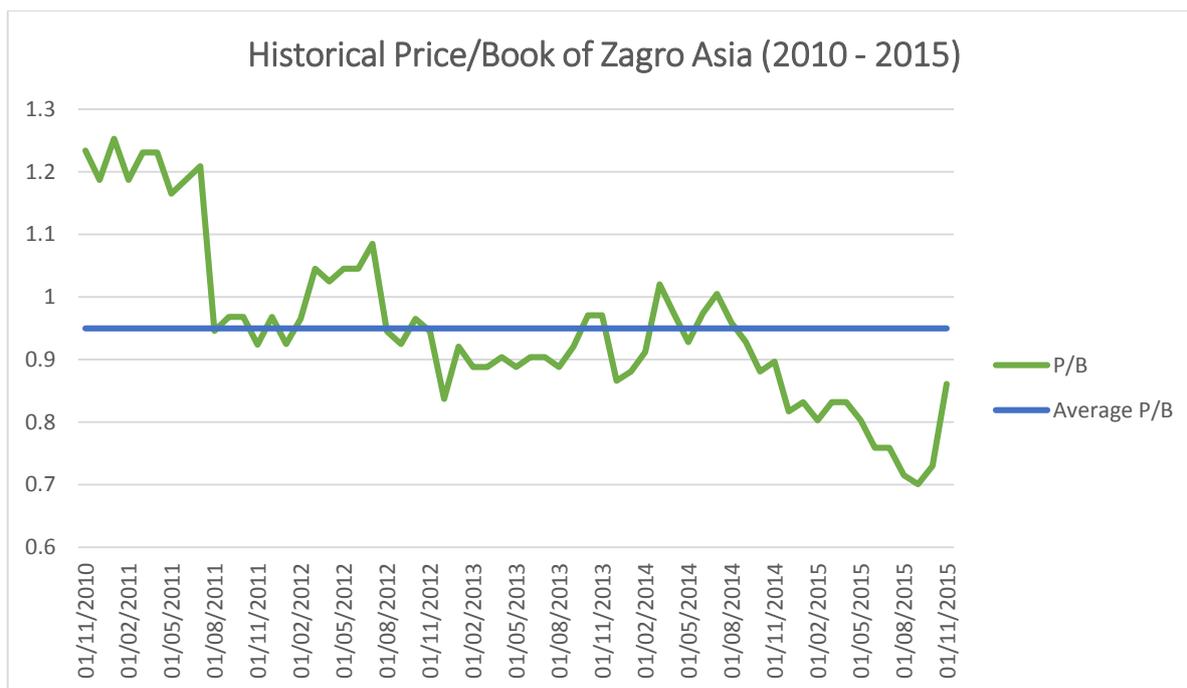
The current offer price of 30 cents pegs the companies P/B ratio at 0.87x.

In the preceding 5 years (Nov 2010 – present), your stock has traded at an average P/B of 0.95x.

In preceding 10 years (Nov 2005 – present), your stock has traded at an average P/B of 1.11x².

¹ Financial Results Summary from ShareInvestor.com

² Data from Thomas Reuters



It is clear from the above charts that in the last decade, a P/B of 0.87x is close to the lowest end of the valuation range.

Given the sterling business record of Zagro Asia, there is no reason why it *should not trade at least at least at book value.*

This would imply an offer price of at least 34.58 cents.

A Look at the Underlying Assets & Business of Zagro Asia

To add to the above point, I would like to highlight the high quality assets that Zagro Asia has.

The financial position of your company is in good shape, with significant amount of cash \$27.9 million, representing 31% of your total equity. Furthermore, you also possess a freehold land valued at \$5.4 million.

In addition, you have also pared down your borrowings by \$4.6 million. There are no significant liabilities, either on or off the balance sheet.

It is safe to say that your balance sheet is at one of its strongest positions since its listing history.

Finally, in your latest half year results, the company recorded a significant improvement in net profits of 18%, from \$3.3 million to \$3.9 million.

Conclusion:

The above points highlight improving business results, a strong unencumbered balance sheet and solid business record.

There is no reason why Zagro Asia should not trade at least at book value, or even a premium of book value indicating a fair value or 35 – 40 cents.

Shareholders who have received notice of your voluntary delisting have already expressed scepticism that the proposed offer of 30 cents reflects the true underlying intrinsic value of your business³.

We have in principle, no objection to a delisting offer, and strongly urge the directors of Zagro Asia to revise their offer as it grossly undervalues what is intrinsically a high quality business.

Tay Jun Hao

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³ <http://valuebuddies.com/thread-731-page-10.html>