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## The "A"s have it

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I am often accused of overlooking the small-caps, those companies with a market capitalization of, say, less than \$10 billion, although this is the area where the biggest capital gains can be made. I know it, because I myself often make these accusations about myself.

But without direct contact with the company, or even of the industry itself, it is very difficult to know exactly how they are doing, and if you do make mistakes they can be very costly. This I learnt yet again when I looked down the list of limited companies, and started off with Aeon Credit ([900](#)).

This company, related to the Japanese retailer, issues credit cards, and finances personal loans and hire purchase. This has always fascinated me, as a colleague of mine, but with a certain amount of money, and whilst I was an articled clerk, formed a company in England so many years ago to finance hire purchase agreements, because the interest rates were inordinate and the purchaser had no idea how high this rate was, effectively at that stage around 17%, because he never cared, and it was just for a short period!

This company had been favourite of mine, and it had served me well. Yet at this stage, with a price of \$6.40, it gives a dividend yield of 5%, and is on a P/E of 9 times, which is attractive. The company has always earned profits and that for the year 2009 was \$290 million, but they had had some poor years in the middle of this decade, while the negative equity concern was rife.

The company's profit has slipped during the first half to \$135 million, so it appears that they will be lower for the year, although income was slightly higher, but bad debts took a remarkably high proportion of 1/3 of revenue, and this amazes me because one does not know what is coming next and one could be in for nasty surprises, and the share price is not very liquid. This company could be an acceptable buy for dividend income, as I would expect that profits will maintain at \$250 million to \$300 million for the while but moving higher in due course, and the capitalization is \$2.7 billion, and is at a premium to NAV, and therefore I would not expect much capital gain.

This is a company that I can understand, so the next company I looked at was Andre Juice ([8259](#)), and that is another company that I do understand as I spent 10 years running my own beverage business in Hong Kong.

Andre Juice has a market capitalization of \$650 million, which at 35 cents is most certainly a small-cap, and last year, 2008, it earned \$1,770,000, after earning \$2,280,000 the previous year. However this year the company has slumped, but has earned just \$8 million during the 9 months to December. I do remember that when I was asked about this company I did advise my questioner to be very careful, even I might have said sell. I thought that this company's initial profits were too high, and therefore rather suspicious. During 2007 the price of this share did get up to 98 cents, so that is the trouble with small-caps, they tend to dissolve if you are not careful, as at this time I still do not see the prospects of a good quick recovery, so I would not be a buyer.

I am quite sure that there are plenty of these small-caps which will double their share price during 2010, and some that will do even better, but unfortunately they do not hang a sign, and if one were to cover the odds you would need to pay out large sums of money with little return or less, and some of the other stocks might even become worthless.

Looking again down the "A"s, I see Alibaba.com, and this is a lovely volatile stock. First listed in 2007, it rose initially to \$40, but with the market collapse in 2008 it fell to only \$3.50. It is now back to \$17.50, at which it is capitalized at \$90 billion, so it is certainly not a small-cap. This is not a business that I am particularly keen on, but I do have the familiarity of being a founder member of Quamnet.

Alibaba ([1688](#)) has few assets, about \$10 billion, has not declared any dividends and is on a P/E of about 60 times earnings, which are statistics that would turn me off. Yet for no reason I rather like it, not of course for investment, per se, but as a speculation, imagining that other people will like it, and perhaps carry it through, although this train of thought totally alarms me, rather like Tencent ([700](#)), now standing at \$155, from \$5 in 2005.

Alibaba's profits are down this year from \$1.2 billion, but quite marginally, but it is in a business which catches peoples' imagination. This would never be an investment, or one that I could suggest to readers, but it is designed to fly, rather like a glider, which gradually comes back to dry land.