How to Spot Opportunities and Pitfalls

Nirgunan Tiruchelvam

INVESTING IN THE COVID ERA

Marshall Cavendish Business

CONTENTS

Introduction

Equity analysts play the same role as movie critics. We recommend stocks for fund managers, just as critics guide cinema goers. Our views help direct investment. We are accredited gatekeepers.

The work involves sifting through thousands of pages of financial statements. It also requires computer modelling to create financial forecasts. Ultimately, the equity analyst needs to generate a report full of facts, figures and charts.

In my early days as an analyst, I used to travel the world to meet investors. This was before the Covid era when airports were functioning. I used to meet investors in financial centres like London, New York and Tokyo, as well as backwaters like Des Moines, Iowa.

Once in Albuquerque, New Mexico, I was pitching the virtues of investing in rubber producers in Asia. The arid plains of New Mexico were a contrast from the greenery of tropical Asia. My enthusiasm for the investment theme and the boredom of the investors was an even sharper contrast.

I rattled off statistics on rubber demand and supply, but the investors dozed off. They were glancing at their Blackberries out of boredom. The minutiae of the figures made no impression. The end of my presentation came as a relief.

It was time to shift gear. I realized that it is better to pitch to the heart than the head.

The story of rubber became my pitch. Despite rubber being an old commodity, it is at the heart of industry. Without rubber, cars cannot operate. Rubber is vital for planes to land. It is the only way for rubber gloves and condoms to be manufactured.

Rubber was a wild crop in Brazil until the 1870s. It was domesticated by an English thief who took it to Malaya. Rubber can take up to 10 years to reach peak production. Hence, investors should pounce on the drop in rubber prices to buy rubber plantation stocks.

The investors were ecstatic. They promptly asked to meet the rubber companies. Before long, they were buying the stocks.

A successful pitch needs a narrative. The thoroughness of the analysis is irrelevant. People need to connect with your pitch with emotion.

This book seeks to popularize investing through stories. Covid-19 has devastated lives and companies. Investors need to come to grips with the catastrophe.

The immediacy of data in the digital age can mislead us. In October 1987, I was at an international boarding school in a remote hill station in South India. It was 14 hours from the nearest large city – Madras (now known as Chennai).

Bangalore, which is now the tech capital of Asia, was nine hours away. But in those days, Bangalore was more provincial than metropolitan. Its airport terminal was roughly the size of a large HDB.

The school followed the American curriculum and had students from over 35 countries. The library had glossy magazines like *Time, Newsweek* and *Sports Illustrated* that were then rare in India. India was an austere, isolated country that was following Soviet-style planning.

I used to follow the stock market closely. India's stock market was closed to foreigners, but I was transfixed by the gyrations on Wall Street. I had read a book called *The Confessions of a Stock Operator* by Edwin Lefevre. The book's protagonist is stock trader Jesse Livermore in the 1890s. He prospers by picking up the debris of a stock market collapse.

On 19 October 1987, the Dow Jones fell 23%. This catastrophe, named Black Monday, was a gilded opportunity to accumulate stocks. Within a week, the market had rallied 10%. But, *Newsweek*, *Time* and *The Wall Street Journal* arrived in my library two weeks after the collapse. The bird had flown.

News used to spread slowly in those days. India had only 30 minutes of English language programming. The state-owned TV station had a new show called *The World this Week*. The buying opportunity passed by unnoticed.

Today, stock prices are instantly available. You can follow the markets on the Iphone in real-time. Trading is free.

But, investment research is not free of jargon. Terms like EBITDA, greenshoe, CBO, and CDO misguide more than inform. These terms can be simplified for both professionals and lay investors.

This book seeks to introduce investing in an accessible way. I use stories to convey complex concepts.

As Steve Lynch said, "If you're prepared to invest in a company, then you ought to be able to explain why, in simple language that a fifth grader could understand, and quickly enough so the fifth grader won't get bored."

Sea in troubled waters

Published on Oct 09, 2020

In 1883, there was a circus pony called Dicky in Chicago. Dicky won the affection of the audience. He was skilful in jumping over a stack of books. The circus goers marvelled at his flexibility. Children laughed and clapped.

Dicky performed the same trick in the same circus for many years. The audience began to tire of this old trick. They soon realised that the pony could only perform one trick. The poor beast was eventually put to death.

Investors are raving at a one-trick pony today: **Sea**, a US-listed e-commerce and gaming company in this region. It has now become the best-performing stock in the world.

Sea has not got the attention of **Tesla** or the FAANGs. But, it has vastly outperformed those names. It has risen 750% in the last 18 months, including 416% in 2020 alone.

The loss-making company is not only the world's top performer, but now also the largest in Southeast Asia. At US$81 billion ($110 billion), its market capitalisation is more than those of Singaporean giants such as **DBS Group Holdings** and **CapitaLand**. It is even more than **BCA**, the Indonesian mega bank. At 30 times FY2019 revenue, it is more than eight times the average for its peers. Even a pony won't be able to scale its valuation.

Sea has two main lines of business—e-commerce and gaming. The e-commerce business is Shopee, a platform that Singaporeans have flocked to in Covid-19. Shopee commands a market share of 25% in the ASEAN e-commerce sector.

The problem is that Shopee is chronically cash-destructive. Sea's overall cash burn is dangerous. The Shopee losses could deplete its cash by FY2023.

Shopee received a spike in revenue due to Covid-19, which has forced people to buy even basic goods like groceries online. However, Shopee's Covid-19 spike is well below its peers in emerging markets. Even the spike has not halted the cash burn.

Sea's gaming business is called Garena. It is cash-flow positive and profitable. It could generate US$2 billion in revenue, which is a four-fold increase from three years ago.

However, it has an eerie similarity with Dicky, the pony that had only one trick. Garena is the only part of Sea's business that is operationally profitable. This is just an agency business. Most of the games are developed by others.

Also, the core of its gaming revenue comes from a single game—*Free Fire*, which is Sea's first self-made mobile game. It is in the Battle Royale category of games—games that simulate survival contests, like in the movie *Hunger Games*, where participants engage in a fight to the death.

Like Dicky's jump in the circus, *Free Fire* is now a phenomenally popular trick. It was the world's most downloaded game in 2019. *Free Fire* attracted more than 80 million daily active users in more than 130 markets.

But loyalty in gaming is fickle. Like fashion, adulation can turn to boredom. Investors in Sea are betting on a single game.

The man at the heart of this pony show is a soft-spoken engineer—Forrest Li. The 42-year-old Li was born in Tianjin, China. His rise has been stunning even by the standards of this era's tech billionaires.

He worked for the Chinese arms of US multinationals—**Motorola** and **Corning**. The turning point was when he got into Stanford MBA's program, the nursery of tech titans.

Li then followed his wife to Singapore, where she had a job, in 2006. He founded Garena (as Sea was then known) in 2009.

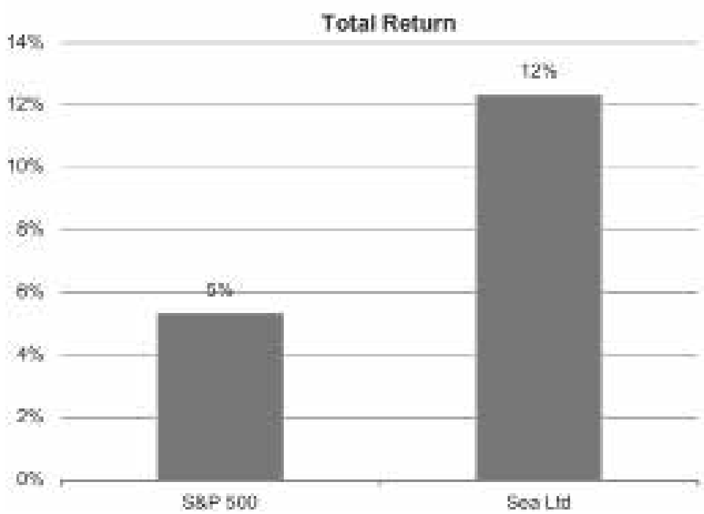
His big break was an early investment by the Kuok family. Sea was listed in 2017 with the backing of **Tencent**.

Li's immediate priority would be to generate cash. He should not rest on his skyrocketing stock price. Like circus-goers and gamers, investors are fickle. They may abandon the stock once the Covid-19 boost ends.

Sea's vast valuation cannot last indefinitely. As Forrest Gump, whose name Li adopted, said: "Life is like a box of chocolates. You never know what you're gonna get." That is a lesson that Dicky learnt and Li should heed.

Postscript

Sea Ltd has defied my scepticism. It has surged despite signs of a vaccine. In December 2020, it reached a valuation of US$100 billion, the first ASEAN company in that bracket.



How to profit from a looming debt crisis

Published on September 28, 2020

Charles Dickens wrote *David Copperfield* in 1849, but its lessons remain vital. It features a clerk called Micawber, who lived beyond his means. He went to jail because he could not pay his debts. In those days, debtors could be jailed under English law.

Micawber is based on Dickens' own father, John Dickens. John had the gift of writing but had no money sense. He owed a baker GBP40, which is about $19.204 in today's money. John Dickens, the father of eight, was imprisoned with his four youngest children. Charles Dickens, who was then 12, had to seek work in a factory to bail out his old man.

Imprisoning debtors is still a common practice in the Gulf. Happily, debtors do not go to jail in England anymore. However, many may soon revisit the misery inflicted on the Dickens family. Covid-19 has not just claimed lives, but also millions of jobs. In many countries, including Singapore, job losses are mounting. In the US, unemployment is now at a 50-year high.

Joblessness is surging after a long consumer debt binge. US household debt hit a record US$13.7 trillion ($18.7 trillion) in 2019, which was around three quarters of GDP.

In the US, 68 million people had debt in collection on their credit report before Covid-19. That number will double by the end of 2020. Debt can be claimed by collectors after it is 180 days past due.

There is an industry that views bad debt as a godsend—debt collectors. This is an advanced industry. Though people associate debt collectors with loan sharks, it is a regulated business. Debt collectors play a vital function. If you cannot collect debts, the whole economy suffers.

Uncollected bad debts make it hard for legitimate borrowers to operate. Debt collectors are like plumbers. Their work can be dirty, but somebody has to drain the pipes of finance.

Opportunity lies in the highly advanced US debt collection industry. American debt collectors are governed by state and federal regulation. The debt collectors are barred from using threats of violence. They cannot shame debtors by publicising the issue. Instead, they collect by combining persuasion with threats.

Debt collectors make money in two ways. They could receive a fee from a creditor for collecting the money that is owed. For instance, let us assume a bank is owed a US$100 million in uncollected credit card debt. The debt collectors could get a fee of 5% of the face value for collecting it.

The second way that debt collectors make money is even more lucrative. The debt collector could buy the US$100 million debt from the bank. It could be bought at a discount of 20% to its face value—US$80m. They could then collect 90% of the face value of the debt. This would amount to a profit of US$10 million. The bank benefits because it means that the bad debt is off their books. The bank receives cash up front. It also saves the bank from the grind of chasing down debt. The last time that debt collectors had a bonanza like Covid-19 was in 2008–2010. The savage financial crisis put almost a tenth of the American workforce out of work. Also, the housing collapse meant that a fourth of sub-prime mortgages ended in foreclosure.

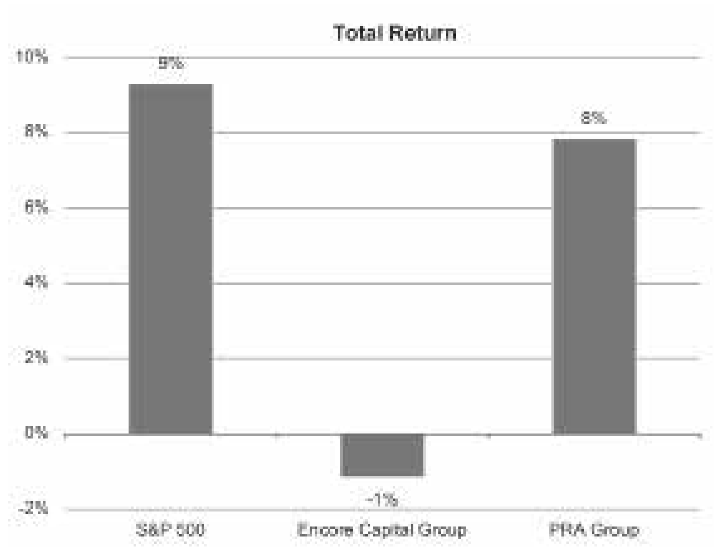
Debt collectors swept in on the bad debt like packs of hungry hyenas. Both the two major debt collectors listed in the US (Encore Capital Group and PRA Group) prospered. PRA Group's net income doubled between FY08 and FY10. ,Its stock tripled over 24 months from its 2008 low. Encore, which was more aggressive in collection, saw its profits rise threefold over 2008–2010.

There are green shoots of a similar surge for these players in 2020. The lockdowns in the US provides them with a better chance of tracking down debtors. The stimulus package provides debtors with the means to trim their obligations. In 2Q2020, PRA Group said that cash collections rose 8% to record levels. At just 6x FY20 P/E, Encore stands out as a value play.

One man's misery is another man's fortune. The owners of jails prospered during the hardships of the Dickens era. As COVID-19 bites investors may want to back debt collectors.

Postscript

PRA has performed well on the back of recession concerns. Encore has underperformed, possibly due to its aggressive balance sheet.



Lessons from Bernie Ebbers' acquisitions spree

Published on February 14, 2020

The former WorldCom CEO Bernie Ebbers, who died at the age of 78 this month, started life as a basketball coach. He often urged his employees to act in concert like a baseball team.

But, Ebbers' memory will ring loud for a different reason. WorldCom, a telecom giant, was one of the spectacular casualties of the dotcom collapse of 2000. It was once the only company that could connect long-distance calls throughout the US. Its market capitalisation peaked at US$185 billion, or US$272 billion ($377 billion) in today's terms. This is more than the valuation of any telco today.

Ebbers, who stood at six foot five and weighed 200 pounds, bullied his employees. But, he had a charming demeanour with investors. He captivated Wall Street with his vision of dominance of the booming telco landscape.

WorldCom's dazzling rise under Ebbers was built on two pillars—acquisitions and earnings growth. It grew by gobbling up over 75 companies. In 1998, Ebbers' purchase of MCI for US$47 billion made it second only to **AT&T** in the US telco field.

Earnings growth was squeezed out of the acquisitions through cost-cutting and aggressive accounting. The market was fixated on the ever-increasing EPS numbers. He slashed thousands of jobs and even banned free coffee in an effort to hit the earnings growth target.

The music eventually stopped. WorldCom's undoing was its foray into fibre optics at the turn of the century. The fibre optics industry was viewed as the magic platform for the growth of the internet. WorldCom overstretched itself by excessive investment in fibre optics. The dotcom collapse in 2000 paralyzed the sector and exposed WorldCom's frailties.

Within a year, the stock lost almost 90% of its value. WorldCom had accumulated US$30 billion in net debt from its buying spree. Crucially, the mood had turned hostile towards fibre optics. The streets were littered with insolvent tech companies.

The spotlight turned on Ebbers. It turned out that WorldCom had loaned him $408 million to buy stock. It was found that he had improperly exaggerated profits by treating operating expenses as capital expenditure.

Ebbers was eventually sentenced to 25 years in prison in 2015 for 11 counts of accounting fraud – the largest white collar conviction.

Asia is in a similar position to the US in the 1990s. There is a massive capital expenditure boom in the telco sector, as 5G looms.

In the 1990s, the US was the centre of the telco boom. Today, the world's leaders in the field are Huawei, **Xiaomi** and **Samsung**, which are in Asia. The low interest rates have spurned a debt binge. The boom is funded by the largesse of the banks. In ASEAN alone, net debt levels have nearly doubled in the last decade.

There are some traps that Asian investors should be alert to.º

First, acquisitive companies could be dangerous investments. Once WorldCom acquired a company, the principal focus was to cut the costs to provide a post-facto justification for the deal. Half of the headcount was axed in several cases.

WorldCom was a roll-up, which is a company that adds value by acquisition. A roll-up company is risky, because the expectation of further success rises with every deal.

Second, complicated accounting practices could be designed to mislead investors. WorldCom aggressively treated operating expenses as capital expenditure to exaggerate its earnings. Capital expenditure is typically deducted from earnings in small chunks.

Third, inflated balance sheets can be problematic when the market turns. After the dotcom collapse, WorldCom had US$30 billion in debt, which was more than twice its market cap.

Wilmar International, a commodity trader, is one of the region's most indebted. It is carrying US$18 billion of net debt, after spending about US$5 billion in capex in the last five years. The market is ignoring its leverage risk, because its net interest rate is only 2%. This comfortable cost of funding may not be sustainable if the exchange rates move against them.

Ebbers' lawyers pleaded his innocence by citing his poor grasp of finance. They stressed his roots as a basketball coach, where he often yelled at his players to keep their eyes on the ball. But investors in Asia's high growth companies should instead keep their eyes out for accounting tricks.

Postscript

There is increased scrutiny on aggressive accounting. It is likely that some of Asia's high growth stocks may fall victim to accounting fraud.

Are roll-ups brewing in beer and coffee?

Published on June 05, 2020

In the 1988 Seoul Olympics, Canadian sprinter Ben Johnson smashed the world record for the 100-metre dash. He leapt to the finish line in just 9.79 seconds, a timing that was then scarcely believable. His competitors included Olympic champions Carl Lewis and Linford Christie, who were blown away.

Johnson was feted as a god-like figure. The photo of his muscular frame crossing the finishing line was on every front page. He told reporters that his record would last 100 years.

However, within days of the race, joy turned to dismay. To the shock of his supporters, Johnson had failed a drug test. A performance-enhancing substance called stanozolol was found in his urine. Stanozolol helps athletes get stronger and build muscle mass.

Johnson was stripped of his medal and record. He has lived in disgrace since.

In the pharmaceutical industry, Johnson's rise and fall was mirrored by Valeant Pharmaceuticals. The Canadian company, which was valued at US$86 billion at its peak, was led by Michael Pearson, a former McKinsey consultant.

Like Johnson, Pearson was ahead of his peers in the industry. Valeant's stock rose 40-fold during Pearson's eight-year tenure that began in 2008. Its operating profits grew 10-fold.

Pearson expanded Valeant by acquiring smaller pharmaceutical companies and cutting costs. The deals were financed by debt.

In August 2005, Valeant's frailties were exposed. It was revealed that Valeant had an improper relationship with a mail-order drug company called Philidor. Philidor was pricing its drugs well beyond the means of consumers. This led to investors zooming in on Valeant's vulnerabilities.

Valeant was a blatant example of a roll-up company — a company that creates growth by acquisition. Growth by debt-financed acquisition was Valeant's drug. Like what stanozolol did for Johnson, it made Valeant appear invincible.

Investing in a roll-up oriented company is risky. The more successful an acquisition, the higher the market's expectations of the next one. There is an insatiable need to feed the beast.

Once an acquisition disappoints, the precipice looms. Valeant had US$30 billion in debt by 2016, which was three times its sales—a dangerous position. The stock lost 91% of its value in the year prior to March 2016. Pearson's career ended in disgrace.

Today, there are two roll-up companies that are feted, although they carry serious risks. They both produce beverages that provide comfort—beer and coffee.

AB InBev could lay claim to be the Valeant of beer. The multinational company, which listed its Asian arm (Budweiser APAC) in Hong Kong last year, produces more than 50 beer brands. These include Budweiser, Stella Artois and Corona. One out of every four beers in the world is produced by AB InBev.

It seems to have an ominous similarity to Valeant Pharmaceuticals. Its growth strategy is built on acquiring rivals. In 2017, AB InBev bought its main rival SABMiller for US$103 billion to cement its grip on the beer market.

It then raised the price of beer. Budweiser APAC's growth is dependent on premiumisation—the practice of introducing higher-priced beers. Valeant was bent on increasing the price of its drugs after acquiring smaller rivals.

Beer consumption is flat in rich countries and falling in emerging markets. Young people are spending more time in gyms than in bars in the West. If the acquisitions are taken out of consideration, AB InBev has not raised beer volumes in the past decade.

Last week, the drowsy IPO market received a shot of espresso. JDE Peet's, the world's second-largest consumer coffee company, listed in Amsterdam and raised US$2.5 billion ($3.5 billion). This is the first major listing in the Covid-19 era.

However, investors should gulp down a stiff cup of coffee rather than a glass of champagne. The growth of JDE Peet's seems to be driven by deals and not organic growth. It could be the roll-up of coffee.

JDE Peet's controls brands such as Douwe Egberts, Kenco and Peet's Coffee. It has acquired famous local brands such as Old Town and Super Group. Its real EBITDA growth in FY17–19 is more modest than the headline CAGR of 10%. That may not be growth levels that deserve 17x EV/ EBITDA in the middle of a pandemic.

As the Seoul Games have shown, those who win the race may not retain the title.

Postscript

The two roll-up companies (JDE Peet's and AB InBev) have had contrasting fortunes. The market seems wary of JDE Peet's acquisitions. AB InBev has risen due to a belief that it would prosper as lockdowns ease.

Why food delivery stocks are steaming hot

Published on August 14, 2020

Tony Jannus was an American pilot who flew the world's first commercial airline flight. It was between St Petersburg and Tampa in the US state of Florida in 1914. He instantly became a celebrity. Pilots were then feted like astronauts. The dashing Jannus had a vast female following.

But his name will ring long for creating a destructive industry. Commercial flight environmental damage is alarming. Its capital destruction is even worse. In the last 106 years, the airline industry has never made money. Covid-19 may wipe out the airline industry. According to the International Air Transport Association (IATA), the aviation industry will lose US$84 billion ($115.4 trillion) this year.

In a strange twist, food delivery is taking off when aviation is collapsing. Covid-19 is wiping out one loss-making industry and boosting another. Food delivery through apps such as Uber Eats, Deliveroo and Just Eats has risen 71% in 1H2020. In Singapore, Foodpanda and GrabFood have done more business in 1H2020 than in the whole of 2019. Food delivery apps were also the most downloaded in Singapore during the "circuit breaker" period.

Pizza Hut pioneered online food delivery in 1995, when the internet was a curiosity. It has been only in the last five years that it has emerged as a serious industry. The smartphone has fuelled the trend. The total industry is expected to reach US$136 billion this year, which is double the level in 2015. It has reshaped dining habits and disrupted restaurants. The users of online food delivery services have also risen from 1.3 billion in 2014 to over 2.1 billion this year.

There are a raft of listed giants in the field. They are mainly in China and the West. The big gorilla is Chinese shopping platform Meituan-Dianping, which has a market capitalisation of US$177 billion. Meituan's sales have risen 10-fold in the last five years. It provides 25 million meals a day, which is more than the total amount of meals provided by the rest of the industry.

Meituan has recently turned a profit, but a sea of red stalks the industry. Other players such as GrubHub and DoorDash in the US and Just Eatin Europe lose about US$0.25 for every dollar of revenue.

This week, Uber reported its results. Uber Eats, its food delivery arm, saw revenues double to US$1.8 billion. Its adjusted EBITDA losses were US$232 million. Despite incredibly fortunate circumstances, it still lost money!

Food delivery has a basic problem. It is a tech business without the network effect. The business is high-tech with a low-tech last mile problem. The average order takes around 30 minutes to execute. A delivery person can, at best, do two deliveries per hour. The more business one undertakes, the more delivery fees accrue to the driver.

The other issue is the crippling operating expenses. The food delivery players have to invest heavily in online marketing. Fave—a popular app in Singapore—provides a $10 discount for any new user. Operating expenses have averaged over 90% for Grubhub in the past three years.

The severe cash burn in this industry will not hinder its growth. Interest rates are so low that hungry investors are eager to fund the cash burn. Amazon took seven years to deliver profits. Many airlines never generated profits, if one accounted for their cost of capital.

The food delivery companies are valued at a multiple of their sales, as they do not even have operating profits. The industry average for the global players is about five times FY2021 EV/Sales. Meituan is the outlier at nine times FY2021 EV/Sales. That may be warranted due to its scale economics in China. It has increased the number of meals served a day by a factor of 10 in five years. There is still room for growth, as only a third of the country is covered.

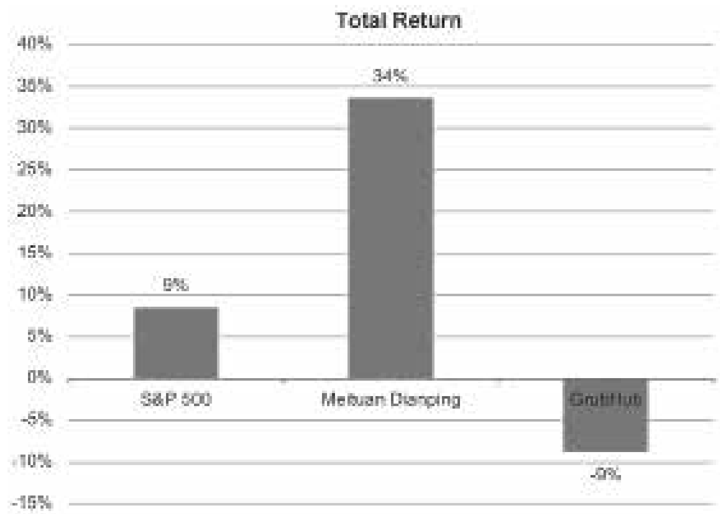
The major players may scour the world for acquisition targets. The emerging markets of Indonesia, India and Brazil have the ingredients to repeat Meituan's success.

Jannus died in a plane crash in Russia, just two years after his famous flight. He was just 27. Commercial aviation has thrived for the last 104 years, despite its poor returns.

It is still early days for food delivery, as it is only a quarter century old. Companies may crash, but the industry's valuation will soar.

Postscript

Despite the cash burn, food delivery stocks are up. Meituan Dianping, the Chinese giant, could become the Alibaba of food delivery.



Why barbershops are defying death

Published on February 28, 2020

Many years ago, my career coach argued that barber salons were recession-proof. People would need a haircut, whatever the gyrations of the economy. I ignored this advice and became an equity analyst.

Barber salons are not only recession-proof, they are defying the death of traditional retail. Singapore's shrinking footfall in the malls has been accelerated by the coronavirus. But, barber salons are thriving in Singapore and elsewhere.

In the US, barbershops are licensed businesses. This allows us to track its progress. The number of barbershops fell by 23% from 1992 to 2012. Since 2013, there has been a boom. In the last two years, barbershops have risen at about 10% per annum, according to Barber Boards Association of America.

This stands in complete contrast to the crumbling performance of traditional retail. Vanishing footfall is common not just in Singapore. In the US, over 15,000 store locations have closed since 2017. Sales are moving online.

Even businesses that were said to be immune to e-commerce such as cosmetics have fallen victim to it. Cosmetics buyers, it was said, prefer to touch and feel the merchandise. However, more than a quarter of the cosmetics sales in the US in 2019 were online.

What is the secret sauce that gives barbershops its Teflon-like status? A robot cannot provide a reliable and affordable haircut—yet.

We have computer programs that assess the contours of a person's hair [do you mean "face"?]. But, everyone's hair is sufficiently distinct that only a human can truly assess it. People do not have enough confidence in a machine to allow robotic scissors to cut hair. There is also the fear of injury.

Barber salons, particularly those that cater to males, enjoy regular revenue. Most males have a haircut every month. The same barber has been chopping my thinning locks for the last 22 years. A haircut is a regular function like brushing teeth or shaving.

The male haircut is also a uniform service with high volumes. The ingredients are just a pair of scissors, clippers, a brush, a sink and a chair. In Singapore, there is a service that provides a 10-minute haircut for $10. This is the fast food equivalent of a haircut.

Women's hairdressing is not as uniform and requires higher upfront costs. The women's hair salon carries a vast stock of dyes and cosmetics. Blow-drying adds to the overheads. The efficiency is less, as a hair appointment can take three hours. The frequency is also lower than a male barber shop.

A barbershop is cash flow positive, unlike many other service businesses. The customer pays on delivery of the service. The wages, rent and utility bills are paid at the end of the month.

Landlords love barber shops. Barbershops want a space format that many other tenants avoid. Barber shops want "bowling alley" space—minimal storefront with great depth.

Though most barbershops are standalone, there are stock market proxies. **QB Net Holdings**, listed in Japan, is an operator of budget haircuts in Asia. It has a network of 660 stores in Japan, Taiwan and Singapore. The typical haircut in Japan takes an hour and costs about US$60 ($84).

QB Net provides haircuts in 10 minutes that cost below US$20. Reservations are not required. It targets the 20- to 45-year-old demographic that are looking for quick service. It takes up an average space of around 33sqm.

At just 12 times EV/EBITDA, QB Net is undervalued for its growth. It generated 19% earnings growth in FY2019 and could exceed that in FY2020. Its projected same store sales growth (a vital metric in retail) is twice that of the average in Japan. It is much higher than the moribund norm in Singapore.

Some barber salons may have to take a haircut on the level of service. Supercuts, the UK business of US-listed barber shop operator **Regis Corp**, filed for bankruptcy last year. Supercuts has 220 salons, but struggled due to its extravagant rents and workforce.

The QB Net low-cost and efficient model seems to be the one that will last. It may be too late for me to follow my career coach's advice, but investors should not ignore this business.

Postscript

This piece was written before the pandemic struck. The case for barber shops has actually strengthened. It was one of main retail activities that people craved during the lockdown. Barbershops have shown strong sales. The stocks have performed badly, as part of the retail selldown. This is unfair.