

Secrets Of Value Investing

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SAYWEE
INVESTMENT

MENG TECK'S

SECRETS OF VALUE INVESTING

COMPILATION OF MY INTERVIEW
NOTES FROM
BILLIONAIRE INVESTORS.

*BOOK 1 OF 2
VERSION 1.0*



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For this book, I would also like to thank & acknowledge Lo Kheng Hong, whom gave me his precious time and without reserve, shared his investing experience & ideas to me and my audience. I am incredibly thankful for it. I would also like to thank Michael from Indonesia, whom introduced me to Lo Kheng Hong. I would also like to thank Jacey whom has helped me to translate this Book to the mandarin version. I would like to thank Yi Kai for helping me to make the cover page of this Book.

Introduction



I was sitting on a treasure trove!

I was preparing for my event focusing on a topic called “Value Investing” and I thought, what content can I share to give maximum value and make the lessons highly relevant to my attendees? And suddenly it hit me..,

“WOW, I can share what I’ve learnt from the super investors I’ve interviewed years ago. Would be great to see how these lessons are applied in South East Asia region by Super Investors who started out as normal employees and have amassed a net worth of hundreds of millions or more.”

The truth is I was sitting on this treasure trove for years! I was supposed to write a book after interviewing them but it was never done because I was waiting for the perfect way of expressing the ideas I’ve gathered to honour these legends and the secrets I’ve learnt from them. It’s too sacred to me and I wanted it to be perfect.

No more waiting! As of the time of the writing of this book, we’ve just been through a pandemic with massive and devastating consequences on many people’s livelihood and the economy. There was a market crash, followed by a bull market (stimulated by easy money by the Federal Reserve). Many beginner investors jumped into the share market looking to make a good profit. Unfortunately, due to a lack of education and/or experience, they ended up buying the popular stocks of the day which they understand very little about and many of these stocks may have questionable fundamentals and/or valuation.

On top of that, in recent months, there have been a mini market crash due to the beginning of the end of the easy money by the Federal Reserve, Inflation (caused by easy money and supply chain disruptions due to lockdown as well as the Russia-Ukraine war. With stock prices coming down again, perhaps there are many opportunities to buy stocks at a bargain price again and I know I cannot sit on this treasure trove of ideas I've gathered anymore. The right thing to do is not to wait for perfect version but at least to have the ideas out so you can use it to pick good companies and grow your wealth in hope that you can follow the same path as these super investors, who started out as normal employee.

With the urgency of the message in mind, please forgive me in advance if this version is a very rough version. I've separated this book into 2 parts.

Part 1 is about the interview with the Indonesia's Super Investor, Lo Kheng Hong while Part 2 will be about my interview with Thailand's Super Investor, Dr Niwes Hemvachiravarakorn.

What you are reading now is Part 1, and when part 2 is ready, I'll send it to you but make sure you are in my mailing list.

You can join my mailing list by registering for my free event at :
www.valueinvestoptions.com

Once you register, I'll have your email address and will send you a copy of Part 2 when it's ready. I hope you enjoy this book!

SUPER INVESTOR

LO KHENG HONG



BACKGROUND

From Indonesia

Estimated Net Worth as of 2012: 2.5 Trillion Rupiah. (RM360 mil +)

Born on 20 February 1959,

Came from a middle class family with humble beginning, lived in a small house measuring 4X10 meters when he was a child.

In year 1979, became an administrative officer for PT Overseas Express Bank and at the same time enrolled into the night class on English Literature from Universitas National.

Started investing at age 30 in 1989 by learning how to invest from books about Warren Buffett's investment methods. Moved to Bank Economy to work in the marketing department in 1990 and in 1991, became the branch manager of the bank.

Quit his job in 1997 and focused on becoming a full time investor.

MENG TECK'S COMMENTARY

It's really interesting to see the step by step progression from a humble family, to working hard taking on a job at age 20 while studying in the night, to picking up investment skills at age 30, to taking the leap of faith by going full time just 7 years after starting his investment journey. I think this is a realistic route that many people may need to go through, from working hard to build up skills and income, to picking up investment skills and putting your extra money to work, and after a few years with enough experience and confidence, only do we transition to become a full time investor. If you really look at the path he took, he grinned his way to success and it took him years of sacrifice to get to where he is. Investing is a long game and we need to manage our expectations.

DAILY ROUTINE

Starts his day with a cup of coffee while reading 4 newspapers, financial statements & corporate announcements from IDX, watch CNBC, Bloomberg, IDX channel, Metro TV. Only reads financial reports from good companies.

MENG TECK'S COMMENTARY

The job of a full time investor is really “reading, thinking & investing”. You have to cultivate a habit and passion on reading or else, it will be difficult for you to become a successful investor.

SUPER INVESTOR

LO KHENG HONG

INVESTMENT STYLE

Buys misplaced securities selling far below the intrinsic value.

Doesn't like to buy small business as he perceives them as high risk. (Small as in small in revenue, profit and market capitalisation).

LO KHENG HONG'S

5 criteria when choosing companies to invest

1. HONEST & COMPETENT MANAGEMENT (WHICH IS ALSO HIS MOST IMPORTANT CRITERIA)



Honest management is the most important criteria because as a sleeping and minority shareholder, it's very bad for us if the management do tricks to enrich their pockets at the expense of shareholders.

2. THE COMPANY IS OPERATING IN A GOOD INDUSTRY



We can judge whether they are a good industry from their 5 years financial reports. If they are not consistently profitable, then chances are, they are not a good industry. Good industries are industry where the companies have high profit with increasing profits. For example, industries like textile and airlines are avoided. Instead, constructions, property, coal, oil palm plantation, consumer goods, banking, pharmacy and etc.

LO KHENG HONG'S

5 criteria when choosing companies to invest

3. HIGH ROE & PROFIT MARGIN



Different business have different business nature. We want to look for one with a high ROE and making big profits because if we own a business like that, it's as if we are owning a cash printing machine.

4. HAS A HEALTHY GROWTH



Different business are in different growth cycle. We want to find a businesses that are still growing and grow rich with the company. How do we know whether a business can grow? We look at their track record. If they have been able to grow well in the past 5 years, they are more likely to continue growing in the future.

LO KHENG HONG'S

5 criteria when choosing companies to invest

5. BUY GOOD BUSINESS AT LOW PRICES. (LOW PRICE COMPARED TO INTRINSIC VALUE)



Some cheap businesses are lousy businesses. Some businesses are good businesses but are too overpriced. We want to look for good businesses that are cheap or mis-priced. Some of the metrics that he is using to measure the attractiveness of the price of a business are P/B & P/E ratio. Lo Kheng Hong also look at intrinsic value using the “Discounted Cash Flow” method.

MENG TECK'S COMMENTARY

For the simplicity of this eBook, I will not be going deep into explaining what are P/E ratio, P/B ratio and Discounted Cash Flow. However, if you'd like to learn more in depth about these methods, you can join my event on **Value Investing** here to learn more about them in depth.

SUPER INVESTOR

LO KHENG HONG

**LO KHENG HONG
TOLD ME ABOUT A
STOCK THAT IF I
HAVE BOUGHT
DURING THE TIME
OF THE INTERVIEW,
WOULD HAVE
MADE ME A
647% RETURN!**

Around the time of the interview back in 2016, Lo Kheng Hong bought the 3rd largest coal miner in Indonesia (PT Indika Energy).

This company has a book value of 1700 Rp per share with a 40 Tons a year coal production. It's share price has dropped from 5000 Rp to 110 Rp in recent years.

Lo Kheng Hong thought the company has a *good management, operating in a good industry but temporary bad and is selling for very cheap price.*

Even though this company only hit 3 out of 5 criteria, he bought it anyway. He bought so much that he became the 3rd largest shareholder of the company. He bought it at the price of 110 and at the time of interview, it's share price was 360.

As of time of writing this in May 2022, it's share price is 2690. It's a ~26X for him if he held on all the way, this is in 6 years. That's about 73% a year return!

DOES LO KHENG HONG USE OTHER METHODS SUCH A TECHNICAL ANALYSIS?

No. Lo Kheng Hong never use Technical Analysis when he invests because it only looks at price chart and none of the 5 criteria above. Therefore, he doesn't not agree with the use of Technical Analysis. Technical Analysis asks you not to buy when stocks are cheap because the price is falling but ask you to buy when it's expensive when it's breaking resistance. This is the opposite of what a Value Investor should be doing.

According to him

The best time to buy is when stocks are under-valued. The best time to sell is when stocks are over-valued.

“Invest in bad time and sell in good time and you will get rich.”

- LO KHENG HONG

MENG TECK'S COMMENTARY

While the 5 criteria above are simple, you also need the experience to judge whether a company fulfils these criteria and the diligence to read financial reports and follow up with the development of these companies.

(Lo Kheng Hong spends most of his day reading reports & thinking about investing!)

Almost as importantly, you also need the faith to believe in your method and the courage to buy when others are fearful and to sell when others are greedy!

IS IT POSSIBLE FOR A NORMAL PEOPLE TO PICK UP THE INVESTMENT SKILL AND GET GOOD RETURNS FROM THE SHARE MARKET?

Lo Kheng Hong believes that even average folks can beat the market if they follow the 5 criteria above and work hard to put in the time to study the companies. Then he/she proceed to wait for the price to be undervalued, buy it and hold until they reach their intrinsic value.

The reason why many people cannot beat the market is because they do not know what they are buying. They are buying on rumour and they buy shares by following what others are buying. They do not do their homework and research and only want to follow other's tips. They did not adhere to the principle of buy what you know and know what you buy. Once, he met someone who has invested for a long time but is not doing well in his investments. When Lo Kheng Hong ask the person what is the book value of the company he bought, he doesn't know. If you are investing without knowing what you bought, it's no wonder if you would lose money. God is forgiving but the market is not and it will not forgive people who doesn't know what they bought.

PROPERTY OR STOCKS.. WHICH SHOULD WE PAY MORE ATTENTION AT?

Most people invest in properties including fund manager, director and public listed company bosses because it's far easier to determine the value of a property than stock. However, if one have the ability to determine the value of a stock, then he/she will not invest in property because stocks can give much higher return than properties.

Moreover, in Indonesia, the stocks market is giving a far better return because Indonesia bursa efek has had the biggest rally in the world in recent times. The IHSG (IDX composite index) was at 424 points in 2002 and as of the time of the interview, it was around 4800 points.

Close to 12X in 14 years! (As of the time of writing, it is 7228 despite the pandemic and the chaos going on in 2022). On top of that, holding stocks is far more liquid (easier & faster to sell for cash) than properties. It's almost as if we are holding cash, most of the time, we can sell today and we can receive the funds in 3 working days time.

DOES LO KHENG HONG LOOK AT OTHER THINGS SUCH AS POLITICS OR MACRO-ECONOMICAL FACTORS WHEN HE INVESTS?

No.

He focuses on the micro. Focus on the 5 criteria and buy good business when they are undervalued.

WHAT'S THE SPECIFIC THING WE NEED TO WATCH OUT FOR WHEN INVESTING IN INDONESIA MARKET?

We need to stay away from buying stocks in companies without a good corporate governance.

A business managed by dishonest and unprofessional people will harm shareholders like us by enriching their own pockets through related party transactions, using company funds to buy the management's personal assets at high prices, causing harm to minority shareholders like us. It's easy for small shareholders to get hurt in this situation and the stock price to crash.

ANOTHER 600% GAIN STOCK...

Around the end of the interview, Lo Kheng Hong showed me another company that he invested in. He invested so much that he became the second largest shareholder of the company, Petrosea TBK.

He bought it because the share price has dropped so much even though the industry is still doing good. The company is a Coal Mining Contractor. It's profit in 2010 was US\$42.3 million, 2011 : US\$52.6 million, 2012, US\$49.1 million but it's profit has declined in 2013 (17.3 mil) & 2014 (US\$2.36 mil) despite increasing revenue.

Lo Kheng Hong thinks the profit has dropped due to low coal price and hence many coal mining company ask for a lower contract price and some even wanted to stop the production. However, in the same period, Petrosea also acquired a project from PT Freeport Indonesia to construct a river embankment. At the same time, they also got a new mining contract from a new client. At the time of the interview, the coal price was climbing back and he bought it believing the company's business will recover. If the business improves, hence, the share price will increase again.

At the time of the interview around mid 2016, the share price of the company was at around 420, having climbed from the low of 220 about 6 months prior. Today the share price is at 2920.

LO KHENG HONG'S MOST PAINFUL LESSON WHEN IT COMES TO INVESTING

He once spotted a business that was making huge profits and has dropped 90% from high.

He believed it was undervalued but, after he buys into the company, it went from losing 90% to 99% because of a bad management (Bad corporate governance, dishonest and unprofessional management).

This has caused him a 90% lost on his investment on that company.

The lesson that he get is, don't invest with a bad management. No matter how much profits the company was making, a dishonest management can still lose it all for you.

Honesty & Integrity is everything.

HOW DO WE IDENTIFY WHAT IS A GOOD MANAGEMENT?

We can gauge whether a company has a good management by reading survey report from good corporate governance authorities. We can also discover which company has good or bad management by reading the news in the Newspaper.

Another very important and useful way to gauge is to look at their track record to check if they have any related party transactions in the past that harmed minority shareholders.

Also, we can survey and ask their competitors, suppliers, customers and employees about what they think of the management.

DOES LO KHENG HONG KEEP CASH TO WAIT FOR MARKET CRASH?

No. He is always 100% invested in stock. He only keeps 2-3 months monthly expenses as cash and never time the market.

ADVICE FOR YOUNG INVESTORS

ALWAYS KNOW WHAT YOU BUYS. NEVER INVEST BLINDLY

“Time is money is wrong. Time is more valuable than money.” Time is life. Money lost can be regained. Time lost is permanent.

Develop a habit of reading.
As the mandarin saying goes...

“书中自有黄金屋。”

Literally translates to :
There's a gold house in the books.

Which means,
reading is the path to wealth.

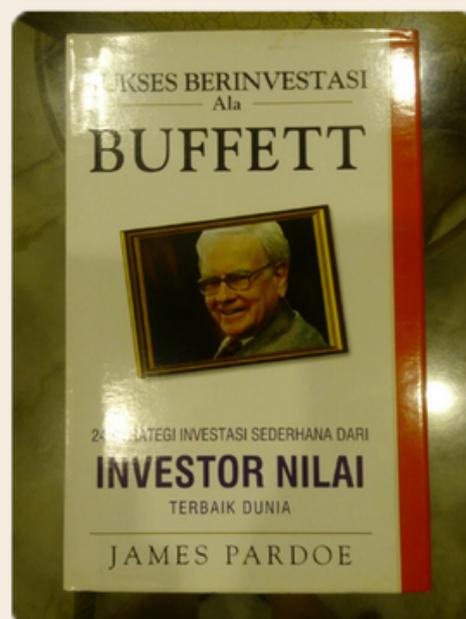
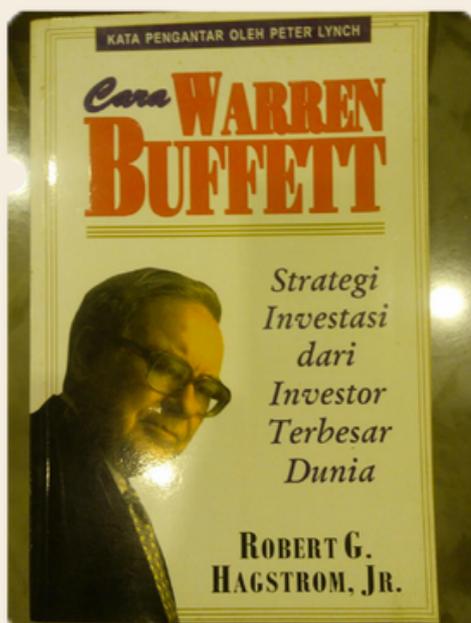


THESE ARE 2 OF THE RECOMMENDED BOOKS ON INVESTING BY LO KHENG HONG :

The Warren Buffett Way, by Robert G. Hagstrom (The first book he read on Value Investing)

And also

“How Buffett Does It: 24 Simple Investing Strategies from the World's Greatest Value Investor (Mighty Managers Series)”



IF YOU CAN ONLY GIVE ONE ADVISE TO YOUR CHILD, WHAT WOULD IT BE?

"Only buy appreciative assets (stocks, properties) and avoid depreciative assets (car) "

OTHER THINGS I'VE LEARNT FROM MY INTERVIEW WITH LO KHENG HONG :

Lo Kheng Hong is a very humble person and is very friendly to me. He does not make me feel like he has any ego that he is so successful and I am a nobody. Instead, he is sincerely trying to help me by educating me and helping me with my project. I admire him very much for this.

WHAT IS THE PURPOSE OF LIFE?

The purpose of life is to help people who need him through his education to help them get smart and rich. Despite not having the need to do so, he still regularly give talks at universities, investment summits as well as interviews in order to educate the public who needs to learn investing.

FEW MONTHS AFTER THE INTERVIEW, LO KHENG HONG SENT ME A NEWSPAPER EXCERPT ABOUT A COMPANY HE INVESTED IN.. YES!

ANOTHER MULTI-BAGGERS, 900% GAIN IN FEW MONTHS.

The story was about how he made 900% gain in few months buying the stock of Bumi Resources, a coal mining company, at the price of 50, when everyone is shunning away from these coal companies.

He explained to me the rationale was, when he looked at the company at that time, there was 36.6 million outstanding shares for the entire company, and the market price at the time was 50 Rp each.

He works out the total market capitalisation (the theoretical amount you need to pay to acquire the entire company at the current market price) to be :

$36.6 \text{ million} \times 50 \text{ Rp} = 1830 \text{ million Rp, or US\$137 million.}$

The coal reserve that this company own is about 3 million Tons, at \$83 USD per Ton price, this means their coal reserve is worth \$249 million USD.

Compared with the price of US\$137 million, it's selling at 45% discount from its coal reserve book value! This is why he dared to buy when others are selling. As he says "Berani membeli karena tahu". The share price went from 50 to 500 in a few months after he bought it.

SUMMARY & WHAT'S NEXT?

What has been proven in this book is that value investing works and as demonstrated by Lo Kheng Hong several stock picks in the past, it doesn't need to be complicated.

The main idea is to truly understand what are you buying and have the discipline & patience to wait until the opportunity to buy a good business at undervalued price arises and to execute the plan accordingly.

Lo Kheng Hong's story is a proof that one can go from a normal employee to becoming a full time investor, to a millionaire/billionaire investor using these simple ideas.

If you love part 1 of this Book, then you will definitely enjoy part 2 of this book as well. Part 2 of the book will be done in similar format and will feature the super investor from Thailand, Dr Niwes Hemvachiravarakorn.

Part 2 is not ready as of this moment but if you truly want an early access and get notified immediately, you should join my upcoming live event called Value Investing & Options, at the time of writing of this book, I'm giving out access to this event for free but it may not be free forever.

You can get your free ticket to the event here : [**www.valueinvestoptions.com**](http://www.valueinvestoptions.com) as a reward for completing this book!

This is where I will share much more in depth on the concepts discussed in this book such as :

- What is P/E ratio, What is Book Value, What is Discounted Cash Flow?
- How do we find these information such as whether a company has a good growth track record, what is their book value & whether the management is good or not?
- I'll also give you a early access preview of the content in Book 2
- On top of that, I'll also share a special technique Warren Buffett use to make about 2% return a month rather safely by "parking" his money to buy good companies that are not yet undervalued enough.

This live event is suitable for total beginners as well as enthusiastic investors alike. All you need to do is to register and attend my live event here : www.valueinvestoptions.com

I hope you enjoyed reading this book as much as I've enjoyed interviewing Lo Kheng Hong. Hope you benefit massively from the information shared here and pay it forward.

Yours Sincerely,

Meng Teck
CEO, Savwee Investment

