How can significant value be created through improved corporate governance?

Christopher Beselin is the Founding Partner of long-term public equity investor, Endurance Capital, with a focus on listed Vietnamese equities. Christopher Beselin has spent the past 10-15 years with his family in Vietnam and founded a range of large and fast growing companies in the country as well as the South East Asian region. He was the CEO / co-founder of two of the top 20 largest exits in South East Asian (Lazada Vietnam and Intrepid)[1] *and he founded one of the first Vietnamese companies to be listed on a Nasdaq stock exchange overseas (Fram). Mr. Beselin has spent most of his career making long term investments in public equities in Europe and South East Asia and he has been a board member of a handful of public companies, for example VNDirect.*

- **What is good corporate governance to you?**

Good corporate governance is in its essence quite simple. It's a system of checks-and-balances that are set up around a company, with the intention of ensuring that its managed in the best interest of *all* of its shareholders, with the ultimate goal of maximizing shareholder value. Unfortunately, its common that public companies fall victim of being run primarily in the best interest of some sub-group or set of stakeholders (e.g. in the best interest of management, in the best interest of some board members or in the best interest of only one or a couple of shareholders). This is not how the company is supposed to be run and optimized. In situations like these, unfortunately, it's usually the smaller minority shareholders (that in turn has entrusted the board and the management of the company to run their invested capital in the company, on their behalf) that suffer - many times even terribly suffer and see great values in their companies being destroyed or misallocated in front of their eyes.

- **But in practical terms what does *corporate governance* actually look like?**

In most countries, we have implemented similar frameworks for corporate governance of public companies. In fact, the basic corporate governance mechanisms and systems are actually surprisingly similar between a country like Vietnam and Sweden, despite them being almost 10,000 km apart. Why is that? It's because the basic challenges that solid corporate governance systems are aiming to address are the same all over the world and have been worked on for hundreds of years to be effective. In basic economic theory the core corporate governance problem/challenging is known as "Principal-Agent Problem" – basically asking *"How can I entrust someone ("the Agent") to run my investment/capital/share of company for me ("the Principal")?"*

- **Ok, but what should it look like in a large public company?**

Concretely, the aim is to set up a system if governing bodies that can ensure the small minority owner (for example the long term stock saver or employee of the company that knows little about how a public company should be run and owns only 10 shares or 0.000001% of the company) that the company is being run as if she owned 100% of the company and the board and management team only had her interest of long term value maximizing in mind. In practice, this means that the shareholders should appoint the board in a representative manner (i.e. the board should not be dominated by solely the representatives of only 1 or 2 large shareholders that might have deviating separate interests from the minority owners), the board should then appoint the management team and the management team should be rewarded in a way that incentivizes them to deliver industry

[1] https://www.techinasia.com/20-largest-exits-sea

leading performance to all of their shareholders (including their minority shareholders – which together is more often than not the largest group of shareholders). In this regard, companies that are run by and for only 1 or 2 largest shareholders are run upside down – they are neglecting the broader interest of their largest shareholder group – all the long term savers out there.

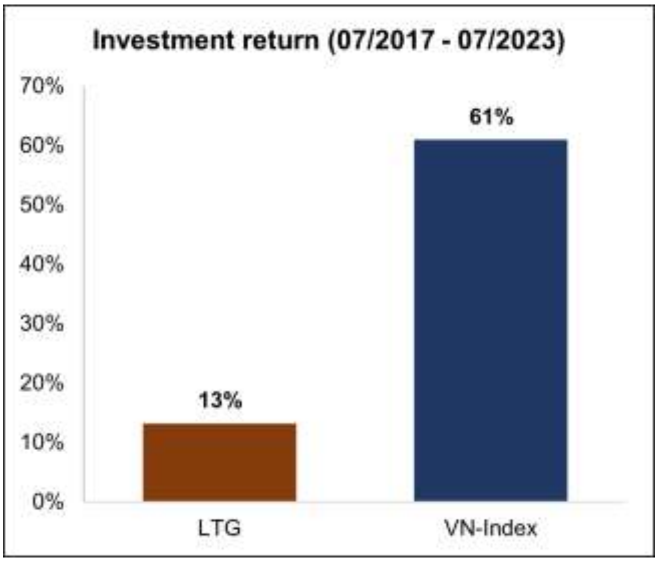
- **This sounds great in theory but do you have any examples of where this could be implemented to actually build value for shareholders in Vietnam?**

I believe there are numerous examples in Vietnam and other public markets – there is a lot of work to be done that could build tremendous shareholder value for Vietnamese private savers over time.

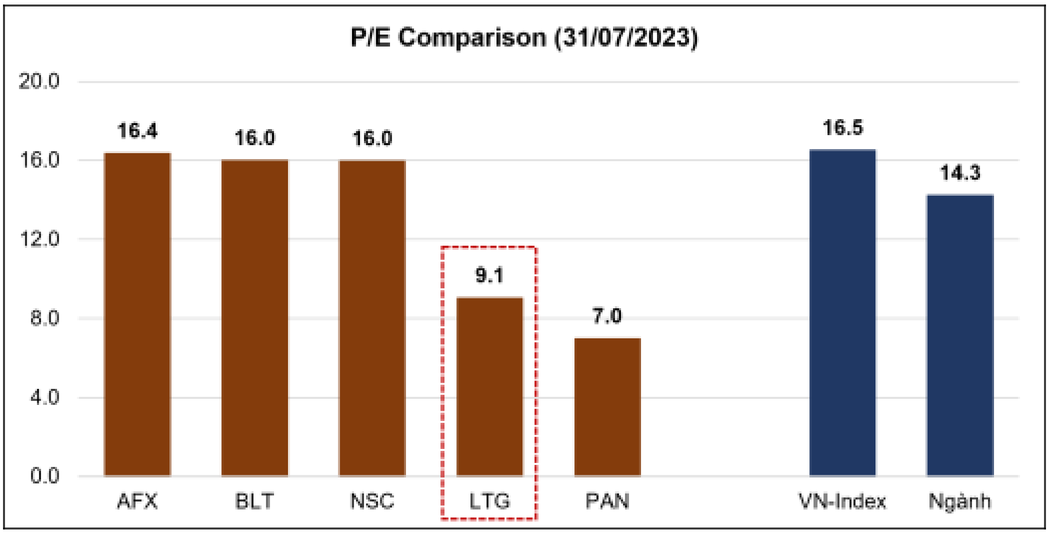
Take one example in the agricultural industry – Loc Troi (LTG) - We believe that this company, in its core, is a real Vietnamese agricultural powerhouse where significant upside is being locked in by corporate governance. If governed correctly, this company even has the potential to become a global winner in its field.

With its headquarters in An Giang, one of the largest rice-producing provinces in Vietnam, Loc Troi is the leading company in the agricultural sector. Loc Troi aspires to improve the quality of life and income of farmers through its products and services through an integrated, automated and sustainable value chain that covers research, production, trading, and exporting of agricultural products. It is one of selected few Vietnamese rice producers that follows the sustainable rice production and meets the requirements of some of the most demanding end-markets in the world (such as Japan, the US, EU and Australia).

The company has delivered some impressive operational improvements and transformations over the past years – moving from primarily being a CPC distributor of Syngenta to developing its own in-house range of CPC products as well as being the country's number one rice exporter, with a particular edge within premium rice to high end markets. That being said, since its first trading session on UPCOM on 24 July 2017 to 31 July 2023, Loc Troi's share price has consistently underperformed the overall VN-Index: while the VN-Index increased by 61%, LTG increased by only 13%. That's 48% underperformance vs the index for a small private saver that invested 6 years ago with Loc Troi, entrusting management and directors to build shareholder value for them.



Endurance Capital recently announced itself officially as the third largest shareholder in the company. Looking at some basic valuation metrics – for example the price-earnings-multiple (the so called "P/E ratio") - the company is now deeply undervalued compared to both its peers and the broader VNIndex. If LTG could achieve a P/E valuation in line with its peers, it would present us many minority shareholders with an immediate upside of ca. +60% to the current share price. That's highly significant.



This shows us two things: 1) There is a very meaningful upside potential in the company's share price, but 2) this upside is being locked away from us minority shareholders for a number of reasons. What are those reasons?

From our perspective we believe the upside in our dear LTG is being locked away for the following primary reasons:

1. The company is still (despite five years of official promises[2]) listed on the non-official exchange, UPCOM. This is really only suited for much smaller companies than LTG that can accept low trading liquidity/no institutional investor capital, low valuation multiples and reporting requirements that are far below that of the main stock exchange of Ho Chi Minh City – its typically an exchange where companies remain listed if there is a reason to temporarily lock away value from the minority shareholders. The promise of relisting LTG to the Ho Chi Minh City stock exchange has then been postponed and delayed with unspecific

[2] Already at LTG's annual shareholder meeting in 2019, the company communicated its intention to relist.

explanations as to why. Both the company and most shareholders seem to agree that there would be significant share price upside from relisting from UPCOM to HOSE main board. Why is it being constantly postponed and delayed for 5 years?

2. The board and management show little willingness to engage in dialogue and communication with shareholders – neither small, nor big. Endurance Capital, has written an official 12-page letter to the board of Loc Troi detailing how we see a specific step by step path for the company to increase its value by 65-85 mUSD (at that time +75-95% increase of the total market cap). Despite multiple reminders to executive management members as well as several different board members of LTG, Endurance Capital is still waiting to receive a reply to our letter – 4 months after sending it to the company. The company's lack of responsiveness and seeming unwillingness to communicate with both small and large shareholders in the company inevitably impact investors' view of the company in a significantly negative direction. The less the company interacts with investors and respond to their inquiries, the more investors and shareholders will leave the stock - this in turn directly pulling down LTG's valuation multiples and leaving it misunderstood and undervalued, as is the case today.
3. In order to realize its full potential of becoming a global agricultural powerhouse, primarily within premium rice, Loc Troi will be needing a lot of growth capital. However, as a public company, Loc Troi, unfortunately today is both misunderstood and undervalued primarily because of (1) and (2) above, the company would suffer unnecessary dilution if it was to raise equity capital to grow. Because of the lack of professional and consistent investor communication as well as its counterintuitive UPCOM-listing, the company is valued at approximately half of its true intrinsic value – this in turn means that any equity capital raising would happen at twice the necessary minority shareholder dilution, if it were to be correctly valued. This is somewhat shocking and it's also likely why the company and its board has opted to go down a path of taking on excessive leverage (thereby avoiding equity capital) to be able to fund growth. Currently the company has taken on almost 4 trillion VND of debt, which is hitting the profits significantly as interest rates rise meaningfully in the world around us.

Despite the company having done some solid transformation work operationally over the past years, the board's lack of focus on investor relations, corporate governance and its pivotal relisting-project, has left the company locked into a vicious cycle where it can't raise equity at an appropriate valuation and hence ends up deeply indebted. The good news is that this could all be relatively easily changed with the right shareholder value focus and humbleness to take in external viewpoints into the board.

- **Thanks for this detailed sharing. Where does the company go from here to align the interests of all stakeholders?**

Ultimately, all shareholders should be able to align that the paramount purpose of the company is to increase the value of its share, to the benefit of all its shareholders and stakeholders, disregarding timing of accumulations and exits of the largest few shareholders. In order to achieve this, Loc Troi needs to improve its investor relations and communication, relist to a fully-fledged stock exchange with appropriate reporting requirements and institutional investor capital, and from there raise equity capital to reduce its debt levels. Endurance Capital has spent considerable amount of time on detailing steps to get there and summarized this in a 12-page letter to the company. We are saddened by the lack of response and would expect more from the board and management of our company. On the flipside, if the company can just put a tiny bit of effort on the points we highlighted (neither of them cost any significant amount of money), there is a +80-100% upside potential right in front of us. As we mentioned in the letter to the company – we are more than happy to support with both time and capital to get there. But as all great projects, it starts with a robust and candid dialogue, which we are also happy to restart at any point in time.