
BITS & PIECES

CONTINUOUS COVERAGE OF SELECTED ARBITRAGEABLE OPPORTUNITIES

June 2011

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All prices as of June 8, 2011, unless otherwise indicated



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Underlining refers to new company

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Reinet Investments SCA (REIN LX); British American Tobacco (BATS LN)

Reinet Investments SCA (REIN LX) was formed in Luxembourg in 2008 as a separately traded vehicle for carrying the non-luxury goods businesses formerly held by luxury goods provider Compagnie Financiere Richemont (CFR VX). The principal asset held by Reinet at the time of separation was CFR's stake in British American Tobacco Plc (BATS LN). Reinet remains one of the largest holders in BATS with 84 million shares, representing over 4% of BATS' capital. Since the separation, Reinet has made additional real estate and private equity investments, although the market appears to be assigning little value to these assets. Indeed, Reinet trades at a 4% discount to the value of its BATS shares, as well as a 17% discount to its estimated net asset value (see table below).

	Shrs. (mn.)	Price	Total Value (mn.)
British American Tobacco (BATS)	84.3	€30.50	€2,572
Cash and Equivalents			€236
Unlisted Investments			€327
Fees, Other Liabilities			(€102)
Borrowings			(€46)
Minority Interest			(€25)
Net Asset Value (NAV)			€2,962
Reinet Market Value	195.9	€12.56	€2,461
Discount to Market Value of BATS			4%
Discount to NAV			17%

BATS share price in £	£27.02
Exchange rate (per £)	€1.13

Source: Thomson Reuters and Institutional Research Group.

BATS' products include Lucky Strike, Viceroy, and Pall Mall cigarettes. Operating margin has improved for six consecutive years through 2011, and is expected to reach the targeted figure of 35% by 2012. Meanwhile, the dividend CAGR over the last decade is 14.7%. As a result, BATS' shares pay a substantial dividend to Reinet (see table below). It should be noted that the annual BATS dividend received by Reinet amounts to €109 million (see below). This may be compared to the management and performance fees related to fiscal year 2011 of the same amount, payable to the company's external manager and advisor. Reinet's other investments include private equity funds and US real estate development projects and distressed mortgages.

BATS Dividend per Share TTM	£1.14
BATS Dividend per Share TTM in €	€1.29
Shares held by Reinet (mn.)	84.3
Dividends Received per Year (mn.)	€109
Reinet Market Capitalization (mn.)	€2,461
Implied Yield on Reinet Market Cap.	4.4%

Source: Company reports and Thomson Reuters.

Johann Rupert is the Chairman of the Board of Reinet's General Partner, which manages the company, and is CEO of Compagnie Financiere Richemont. Johann Rupert is the son of the late Anton Rupert, a notable South African entrepreneur, who founded Rembrandt Group, a financial, mining, and luxury goods conglomerate that was later divided into Compagnie Financiere Richemont and Remgro Ltd (REM SJ), the latter being a diversified holding company with exposure to financials, industrials, and mining. It should be noted that Reinet pays advisory, management, and incentive fees to entities controlled by the Rupert family, which currently owns 24.7% of Reinet shares. Performance fees, which are 10% of adjusted cumulative returns (calculated as the 20-day weighted average closing price at the end of the fiscal year less the 60-day weighted average share price of the first 60 trading days of Reinet's listing, which is €7.1945), amounted to €86.4 million during the fiscal year ended March 31, 2011. No performance fees were paid during the previous two years of Reinet's existence.

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Dryships Inc. (DRYS); Ocean Rig UDW

Dryships Inc. (DRYS) operates a global fleet of drybulk carriers and offshore oil drilling rigs. In December 2010 DRYS sold a 22% stake in its offshore drilling rig subsidiary Ocean Rig UDW, which now trades on the Norwegian OTC market (the company will seek to list on the Norwegian stock market in 2011). The current market capitalization of Ocean Rig is about \$2.6 billion, valuing Dryships' stake at about \$2.0 billion. The stake exceeds its own market capitalization by \$550 million, or over 37%. In addition, DRYS trades at a steep discount to competitors in the drybulk sector, such as DSX, GNK, EGLE, and NM, due at least in part to debt concerns. However, if DRYS could monetize its equity stake in Ocean Rig, the current value would exceed its net debt adjusted for Ocean Rig.

Slowing global trade has resulted in significant declines in Dryships' bulk rates over the last three years. As a result, DRYS has failed to comply with certain financial covenants, although its bankers have opted to provide waivers. The company is still servicing the loans, which have been reclassified as current debt (as opposed to long-term debt), because of the callability of the issue by the creditors. Ultimately, as long as Dryships can service its debt, a forced default does not appear imminent. The Baltic Dry Index, which tracks worldwide international shipping prices of various drybulk cargos and which forms the basis for the leasing rates charged by drybulk carriers, recently declined to one-tenth of its peak, achieved in 2008.

A recovery could be several years away. Improving trade volume is being offset by added drybulk capacity, keeping shipping rates extremely low. This trend is likely to continue into 2013, with more capacity expected for delivery. Many ships that were ordered before the economic crisis are now arriving. According to industry consultant N. Cotzias Shipping Group, drybulk capacity will rise 16% in 2011 and an additional 10% in 2012, more than overwhelming drybulk demand. Retirement of older ships may help offset deliveries, and by 2013 and 2014 new deliveries are expected to slow. Capacity concerns have resulted in drybulk carriers trading near historical lows. Meanwhile, DRYS's high debt burden and capital needs have led it to sell significant equity. From the end of 2007 through the end of 2010, the company's shares outstanding increased more than sevenfold. Additionally, DRYS became more leveraged, with total debt more than doubling during that time frame.

While investors have reason to be concerned about the likely slow recovery in the drybulk sector, DRYS's stake in Ocean Rig should offer some protection from default. As of March 31, 2011, its backlog had increased to over \$2 billion after DRYS was awarded several long-term drilling contracts in early 2011. Opportunities appear to be picking up, particularly in Brazil and West Africa. Notably, development of the massive Tupi field offshore Brazil could increase demand for deep offshore rigs, helping offset Gulf of Mexico weakness. Rising oil prices should be a catalyst for these high-cost development projects.

Also notably, acquisition activity in the sector picked up recently. In February 2011, Enscopl (NYSE: ESV) announced a cash and stock deal to acquire offshore driller Pride International (NYSE: PDE) for \$7.3 billion, equivalent to about 16x trailing EBITDA or approximately 9x consensus 2011 EBITDA estimates. Given the expected activity growth in the offshore drilling space, it is arguably surprising, despite the near-term debt concerns, that DRYS trades at such a substantial discount to other drybulk carriers.

(in millions, except per-share data)

Dryships share price	\$3.76	Dryships adjusted market value, ex. Ocean Rig	(\$550)
Shares outstanding (millions)	389	Plus: Dryships net debt	\$2,005
Market capitalization	\$1,462	Less: Ocean Rig net debt	\$868
Ocean Rig share price	\$19.59	Dryships adjusted enterprise value, ex. Ocean Rig	\$586
Shares held by Dryships (78%)	102.7	Ocean Rig share price in home currency	NOK 106.00
Less: value held by Dryships	(\$2,013)	Exchange rate (per US\$)	NOK 5.41
Adjusted market value, ex. Ocean Rig	(\$550)	Ocean Rig share price in US\$	\$19.59

Source: Company reports, Thomson Reuters, and Norwegian Securities Dealers Association.

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Dundee Corporation (DC\A CN); Bank of Nova Scotia (BNS CN)

(In Canadian dollars, unless otherwise stated)

Dundee Corporation (DC\A CN) is a Canadian holding company operating in the real estate and natural resources arenas. In February 2011 Dundee sold its controlling stake in DundeeWealth Inc. to Bank of Nova Scotia (BNS CN) in exchange for common and preferred BNS shares. Dundee's nearly 18.6 million shares of BNS have a market value of almost C\$1.1 billion or nearly 60% of the current market value of DC\A. If one adds in the market value of Dundee's holdings of Dundee Real Estate Investment Trust (D-U CN), Eurogas Corporation (EUG CN), Dundee Precious Metals (DPM CN), and Breakwater Resources Ltd. (BWR CN), the remaining Dundee operations appear to be severely discounted by investors (see exhibit below). Mr. Ned Goodman, President and CEO of Dundee Corporation, and his family hold over 84% of the company's voting power through a combination of traded Class A shares and 99% of the unlisted common shares, which carry substantial voting rights.

Bank of Nova Scotia ("BNS"), which traces its history back over 175 years, is a global Canada-based financial services company. In Canada, BNS provides retail banking and commercial banking to small and large businesses, including investment banking, cash management, et al. The company's presence internationally includes retail and commercial operations in over forty-five countries outside Canada, primarily in Latin America and Asia. Additionally, with the acquisition of Dundee Wealth, BNS has bolstered its global wealth management business, which targets high-net-worth clients worldwide.

Dundee REIT, which holds 12.3 million square feet of gross leasable area across Canada, focuses on office space leasing of mid-sized properties. Eurogas Corporation develops energy projects worldwide, holding interests in the largest accumulation of producing oil and natural gas assets in Ontario and in the development of an offshore gas storage facility in Spain. Eurogas Corporation also holds a majority stake in Eurogas International, an independent oil and gas exploration company with assets offshore Tunisia. Dundee Precious Metals is engaged in the acquisition, exploration, development, and mining of precious metals, with its primary interests including a producing Bulgarian mine with gold, copper, and silver concentrate; a copper concentrate facility in Namibia; a producing mine in Armenia with gold, copper, zinc, and silver concentrates; a development-stage gold property in Bulgaria; and a majority interest in Avala Resources (AVZ CN), a company focused on the exploration and development of copper and gold projects in Serbia. Breakwater Resources is a mining, exploration, and development company with operations in Canada, Chile, and Honduras, primarily producing zinc concentrate.

The current market value of Dundee Corporation is only C\$175 million more than the current value of the stakes in the publicly listed companies it owns. Thus, the current market valuation appears to give little consideration to Dundee's 70% stake in privately held Dundee Realty, which earns income from property rents, land sales, and sales of housing and condominium units in the US and Canada. As of 12/31/10, Dundee Realty had real estate assets on its balance sheet worth C\$429 million. Further, the market also appears to assign little value to Dundee's ownership of preferred shares of Bank of Nova Scotia, worth C\$372 million at the time of the close of the February 2011 DundeeWealth transaction.

(C\$ in millions, except ratios and per-share data)

Dundee Corporation share price	\$24.65	Dundee Corporation market capitalization	\$1,784
Shares outstanding (millions)	72.4	Mkt. value of Dundee Corp. ownership of traded investments	(\$1,609)
Market capitalization	\$1,784	Adjusted mkt. cap. of Dundee Corp., ex. traded investments	\$175
Market Value of Dundee Corporation Ownership of Traded Investments			
Bank of Nova Scotia share price	\$57.77	Dundee Precious Metals market capitalization	\$950
Shares held by Dundee Corporation	18.6	Less: value held by Dundee Corporation (23%)	(\$219)
Less: value held by Dundee Corporation	(\$1,074)		
Dundee REIT market capitalization	\$1,740	Breakwater Resources market capitalization	\$400
Less: value held by Dundee Corporation (9%)	(\$157)	Less: value held by Dundee Corporation (23%)	(\$92)
Eurogas Corporation market capitalization	\$125	Mkt. value of Dundee Corp. ownership of traded investments	(\$1,609)
Less: value held by Dundee Corporation (54%)	(\$68)		

Source: Thomson Reuters and Institutional Research Group

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EXOR S.p.A. (EXO IM); Fiat S.p.A. (F IM); Fiat Industrial S.p.A. (FI IM)

EXOR S.p.A. (“EXOR”) is an Italian holding company with diversified investments across several industries, including automotive, business services, real estate, tourism, banking, et al. The majority of EXOR’s investments comprise publicly traded equity shares for which an immediate and accurate value exists. The market value of EXOR’s listed investments is €7.6 billion, which amounts to over 145% of EXOR’s market capitalization.

EXOR’s listed investments include its 31% ownership stake in Fiat, an Italian automobile manufacturer that includes the Fiat, Ferrari, and Chrysler brands, among others, as well as a 31% stake in Fiat’s farm and truck business, Fiat Industrial (FI IM), which was spun off from Fiat in January 2011; a 28% stake in Sequana S.A., a French paper company; a 60% stake in Juventus Football Club, an Italian soccer team; a 0.1% stake in Intesa Sanpaolo, an Italian bank; and a 15% stake in Swiss-based SGS S.A., an international business services company. For the purposes of estimating NAV, EXOR assigns a value to its unlisted investments through an annual third-party appraisal. Through this methodology, as of December 31, 2010, the value of its unlisted holdings was €1,073 million. These investments include the following: a 70% stake in Cushman & Wakefield, the world’s largest privately held commercial real estate firm; a 100% stake in Alpitour, Italy’s largest tourism company; a 17% stake in Gruppo Banca Leonardo, an Italian investment bank; a 43% stake in Vision Investment Management, a hedge fund that specializes in Asian investments; a 17% stake in Banijay Holding, a French television production company; a 5% stake in *The Economist* magazine; and a 57% stake in Almacantar, a London- and Paris-focused commercial real estate firm.

EXOR holds a net cash position of €9 million, comprising €1,597 million in financial assets and €1,499 million in financial liabilities. Additionally, the NAV calculation below includes €210.0 million in proxy future holding costs, which are the capitalized ongoing costs of operating the holding company, as estimated by EXOR, including salaries and business expenses. EXOR currently trades at a 39% discount to its estimated NAV. From a historical perspective, it should be noted that EXOR – since the merger with one of its subsidiaries in March 2009 – has traded at a significant discount to its NAV. While one could argue that a conglomerate discount is warranted, the majority of EXOR’s NAV comprises listed investments, for which a market value exists, thus eliminating any transparency concerns. Further, EXOR’s predecessor company – IFI S.p.A. – had a history of growing book value over the long term. Indeed, during the period 9/30/04 – 9/30/08, IFI S.p.A.’s book value per share nearly doubled. Thus, one could argue for the continued narrowing of EXOR’s wide discount to NAV.

Historical Discount to NAV

	3/1/2009	3/31/2009	6/30/2009	9/30/2009	12/31/2009	3/31/2010	6/30/2010	9/30/2010	12/31/2010	3/31/2011
NAV (mn.)	€2,968	€3,708	€4,497	€5,258	€5,737	€5,818	€5,520	€6,624	€8,364	€8,883
Mkt. Value (mn.)	€1,282	€1,655	€2,176	€2,623	€3,277	€3,072	€3,096	€4,498	€5,561	€5,014
Discount	56.8%	55.4%	51.6%	50.1%	42.9%	47.2%	43.9%	32.1%	33.5%	43.6%

	Shrs. (mn.)	% Held	Price	Total Value (mn.)
Listed Investments				
Fiat S.p.A.		30.5%		
Ordinary shares	332.6		€7.10	€2,361
Preferred shares	31.1		€5.25	€163
Savings shares	2.3		€5.32	€12
Fiat Industrial S.p.A.		30.5%		
Ordinary shares	332.6		€8.80	€2,927
Preferred shares	31.5		€5.20	€164
Savings shares	24.3		€5.11	€124
SGS S.A.	1.2	15.0%	€1,307	€1,533
Sequana S.A.	14.0	28.2%	€10.44	€146
Juventus Football Club S.p.A.	120.9	60.0%	€0.87	€106
Intesa Sanpaolo S.p.A.	10.0	0.1%	€1.79	€18
				€7,555
Unlisted Investments				€1,073
Net Cash				€99
Proxy Future Holding Costs				(€210)
Net Asset Value (NAV)				€8,517
EXOR Market Value				€5,223
Discount to NAV				38.7%

Source: Company reports.

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First American Financial (FAF); CoreLogic, Inc. (CLGX)

On June 1, 2010, 12.9 million shares of CoreLogic, Inc. (NYSE: CLGX) were distributed to First American Financial (NYSE: FAF) under the terms of First American Financial's tax-free spin-off from CoreLogic. At its current price, First American Financial has a market capitalization of \$1.6 billion relative to book value of \$2.0 billion and is valued at 0.82x book value. This discount to book value is more significant when one considers that First American Financial ("FAF") holds an estimated \$465 million in net cash, as well as \$223 million in CLGX shares; therefore, if one separates this \$688 million from the company's market capitalization, and adjusts its book value by the \$465 million net cash and the \$239 million of book value of the CLGX shares, FAF is found to be trading at 0.73x book value. Such a discount might have been understandable during the depths of the mortgage crisis, when significant increases in underwriting losses (as high as 13% in 2008 for FAF versus normalized ratios of under 5%) and write-downs to investment securities clouded future profitability. However, FAF saw book value per share remain flat from 12/31/2007 to 12/31/2010, which was arguably the worst mortgage environment in 75 years. Further, in recent quarters, aggressive expense management has helped the company return to profitability, despite lower levels of business activity. Therefore, since these assets are now earning a positive economic return, a premium to (or, at least, parity with) book value is warranted. Further, if one considers that the current market reflects both trough earnings and valuation multiples that are below historical averages for the title insurance industry, shares of FAF are likely worth considerably more over the long term.

Certainly, FAF's performance has been negatively affected by the recent turmoil in the real estate market. The company has managed to return to profitability, however, by managing expenses while benefiting from a slight rebound in business activity. Going forward, when one considers FAF's 28% market share and its position as the second largest title insurer in the US, combined with the significant barriers to entry in creating a title plant (the vast, detailed database of property-specific ownership and transaction history), FAF has significant value. FAF posted diluted earnings per share of \$1.20 in 2010 and holds shareholders' equity of \$1,974 million. If one values FAF at a price-to-book value multiple comparable to that of Fidelity National Financial (NYSE: FNF), or approximately 1.0x book value, a fair value for FAF of \$18.87 per share appears reasonable. If one considers that FAF's balance sheet is stronger than Fidelity's, a price-to-book value multiple for FAF that is on par with Fidelity appears appropriate, if not conservative. Further, in March 2011 FAF management received Board approval for a \$150 million share repurchase program.

Moreover, as is the case with FAF, valuations of CLGX are based on trough earnings forecasts and valuation multiples that are both below historical averages and below those of other relevant comparable information solutions/data processing companies, implying that shares of CoreLogic are a compelling long-term investment at current levels. CoreLogic is trading at a forward EV/EBITDA multiple of 6.3x. While competitor Lender Processing Services (NYSE: LPS) is valued at 5.3x, one could argue that a significantly higher multiple for CLGX is justified, as businesses that exhibit CoreLogic's operating leverage and free cash flow generation typically trade at EV/EBITDA multiples of approximately 8x or higher. Further, CLGX should experience a higher growth rate as we move toward a rebound in the housing market (LPS, with significantly higher exposure to default management services, will likely see increased revenues from mortgage originations be offset by declines in revenues from default management).

<i>(US\$ in millions, except ratios and per-share data)</i>		Book Value	Price/Book
First American Financial share price	\$15.30		
Shares outstanding (millions)	105.2		
Market capitalization	\$1,609		
Book value as of 3/31/2011		\$1,974	0.82x
CLGX share price	\$17.23		
Shares held by FAF (12%)	12.9		
Less: value held by FAF	\$223		
Less: net cash	\$464.5		
Adj. market value, ex. net cash and CLGX	\$922		
Adj. book value, ex. net cash and book value of CLGX		\$1,271	0.73x

Source: Thomson Reuters and Institutional Research Group

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Guardian Capital Group (GCG/A CN); Bank of Montreal (BMO CN)

(In Canadian dollars, unless otherwise stated)

Guardian Capital Group is a diversified Canadian financial services company that operates an asset management business and a financial advisory business. In July 2001, Guardian completed the sale of its mutual fund subsidiary to Bank of Montreal for 4.96 million BMO common shares. Net of this holding of BMO shares, combined with other liquid investments and net debt, the Guardian stub is currently priced at \$2.37 per share (see exhibit below). From March 2007 to the trough of the market in March 2009, the Guardian stub price declined from \$5.37 to \$0.11. Since then, however, the stub price has risen to its current level, mostly due to the outperformance of the Guardian share price vis-à-vis the Bank of Montreal share price (since March 2009 trough levels, Guardian shares are up approximately 230%, while Bank of Montreal shares are up about 120%). During the same period, Guardian Capital's assets under management have declined from \$17 billion to \$16.4 billion. Separately, assets under administration in its Wordsource financial advisory platform for other advisors are currently \$8.1 billion, versus year-end levels of \$7.8 billion in 2010, \$7.1 billion in 2009, \$6.3 billion in 2007, and \$5.7 billion in 2005. The stub, which displays substantial volatility, remains below its pre-trough levels, however (see table).

	Mar-07	Sep-07	Mar-08	Sep-08	Mar-09	Sep-09	Mar-10	Sep-10	Mar-11
Guardian Cap. Stub	\$5.37	\$4.17	\$4.80	\$2.85	\$0.11	\$0.70	\$0.43	\$0.73	\$2.13

Net of the Bank of Montreal holding, the adjusted enterprise value, as a percentage of assets under management (AUM), yields 0.49%. Other asset management companies are currently valued at much higher EV/AUM multiples. A valuation on an adjusted EV/AUM basis would yield a share price of \$13, based on an EV/AUM multiple of 3%, before attributing the per-share value of \$8.75 from Guardian's stake in Bank of Montreal. After attributing for the stake in Bank of Montreal, the asset value would be as high as \$22 per share.

Guardian Capital's valuation could easily be buoyed by a spin-off of its substantial shareholdings in Bank of Montreal. That said, there is no basis for expecting such a transaction in the near term. However, it appears that the remaining Guardian operations, particularly the asset management division with \$16.4 billion in AUM, are approaching a scale such that their earnings will become more representative of the company's potential. Consequently, they could garner a more reasonable valuation in the public markets. The Bank of Montreal shares currently mask that pending value realization. It is merely supposition, though it is logical and consistent with Guardian's historical approach to exploiting value disparities, to assume that these shares will ultimately be disposed of.

<i>(C\$ in millions, except ratios and per-share data)</i>	Per Share	Adj. Enterprise Value/AUM
Guardian share price	\$9.95	
Shares outstanding (millions)	34	
Market capitalization	\$340	
Bank of Montreal share price	\$60.18	
Shares held by Guardian	5	
Less: value held by Guardian	(\$299)	(\$8.75)
Adjusted market value	\$42	\$1.20
Add: parent-level net debt	\$39	
Adjusted enterprise value	\$81	\$2.37
		0.49%
AUM as of March 31, 2011	\$16,423	

Source: Thomson Reuters and Institutional Research Group

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Henderson Land Development (12 HK); Hong Kong & China Gas (3 HK); Miramar Hotels (71 HK); Henderson Investments (97 HK); Hong Kong Ferry (50 HK)

Henderson Land is a Hong Kong-listed real estate company that invests in and develops property in both Hong Kong and Mainland China. It holds publicly traded interests in Hong Kong and China Gas (3 HK), Miramar Hotels (71 HK), Hong Kong Ferry (50 HK), and Henderson Investments (97 HK). The market value of these interests is currently HKD55 billion versus HKD109 billion for Henderson Land. This places the stub equity value of Henderson Land's core business at HKD54 billion versus book value of HKD122 billion, implying an adjusted price-to-book multiple of 0.45x. Henderson Land has an impressive track record of creating shareholder value via book value per share growth and dividends, with a compounded annual return of over 10% since 1999. It should be noted that Lee Shau Kee, the company's founder and Chairman, recently agreed to exercise HKD58-strike warrants for 172.4 million shares – increasing his stake to over 59% from 55% – despite the share price having traded below HKD58. The Lee family paid HKD10 billion (US\$1.29 billion) to exercise these warrants and also bought 28.2 million shares in the market during March and April 2011 at average prices between HKD47.055 and HKD56.357, an expenditure of roughly US\$200 million. One may view this recent insider activity as a vote of confidence given that Lee Shau Kee, the twenty-eighth richest person in the world, has considerable insight into the prospects for Asian real estate.

Henderson Land's largest listed investment by market capitalization is HK&C Gas, Hong Kong's first public utility, which provides gas throughout the territory and is a growing provider of gas in several China provinces. These China operations represent a significant opportunity for HK&C Gas, as the government has set policy goals for the conversion of utilities from kerosene and coal to natural gas. As an indication of relative proportion and potential profitability, HK&C Gas had Hong Kong customers of 1.7 million as of year-end 2010 (1.5% growth y-o-y), and Mainland customers of 11.9 million (6% growth y-o-y). Henderson Land's other investments include a 44% stake in Miramar Hotels, a 68% stake in Henderson Investments, and a 31% stake in Hong Kong Ferry. Miramar Hotels operates a diversified portfolio of hotels, apartment buildings, and rental properties in Hong Kong. Henderson Investments is an infrastructure company that owns a 60% interest in the 5.8-kilometer Hangzhou Qianjian Third Bridge, part of the truck route that links Beijing with Fujian province. Hong Kong Ferry is a property developer that also has travel and hotel operations, as well as ferry and shipyard operations in Hong Kong.

Henderson Land categorizes its properties in Hong Kong as follows: 10.9 million square feet of properties held for or under development, 9.4 million square feet of completed investment properties (rental properties), 1.0 million square feet of hotel properties, and 40.6 million square feet of agricultural land. Additionally, the properties in Mainland China are categorized as 150.4 million square feet of properties held for or under development and 6.5 million square feet of completed investment properties (rental properties). All figures represent attributable gross floor area, except for the agricultural land in Hong Kong, which represents total land area. Although the majority of the company's real estate, by square footage, is found in Mainland China, the company's assets in Hong Kong account for the majority of the value of Henderson Land's real estate holdings. However, the market does not appear to be properly valuing this core real estate business. When one subtracts the current market value of Henderson Land's listed investments from the consolidated company's market capitalization, and compares this to the company's net asset value, adjusted for the book value of these investments and minority interests, the company's core assets are found to be trading at 0.45x book value. This valuation implies that a severe diminution in property values in both China and Hong Kong is likely and assigns little to no value to the long-term potential of the company's land bank.

<i>(HKD in millions, except per share amounts)</i>			
Henderson Land share price	HK\$50.05		
Shares Outstanding	2,176		
Henderson Land Market Capitalization	HK\$108,908	Henderson Land Equity Attributable to Shareholders	HK\$159,038
Less:		Less:	
HK&China Gas share price	HK\$17.46	Est. Book Value of Investment in HK&C Gas, Miramar, and HK Ferry	HK\$36,316
Shares Owned by Henderson Land (41%)	2,864	Est. Book Value of Investment in Henderson Investments	HK\$1,097
Value to Henderson Land Development	HK\$50,011		HK\$37,413
Miramar Hotels share price	HK\$9.45	Henderson Land Adjusted Equity Attributable to Shareholders	HK\$121,625
Shares Owned by Henderson Land (44%)	255		
Value to Henderson Land Development	HK\$2,412		
Henderson Investments share price	HK\$0.71	Henderson Land Market Capitalization	HK\$108,908
Shares Owned by Henderson Land (68%)	2,070	Henderson Land Equity Attributable to Shareholders	HK\$159,038
Value to Henderson Land Development	HK\$1,470	Henderson Land Market Capitalization/Book Value	0.68x
Hong Kong Ferry share price	HK\$7.20	Henderson Land Adjusted Market Capitalization	HK\$54,212
Shares Owned by Henderson Land (31%)	112	Henderson Land Adjusted Equity Attributable to Shareholders	HK\$121,625
Value to Henderson Land Development	HK\$804	Henderson Land Adjusted Market Cap/Adjusted Book Value	0.45x
Henderson Land Adjusted Market Cap.	HK\$54,212		

Source: Thomson One, company reports and Institutional Research Group estimates.

BITS & PIECES

Hutchison Whampoa (13 HK); Husky Energy (HSE CN); Cheung Kong Infrastructure (1038 HK)

Hutchison Whampoa (“Whampoa”) is a Hong Kong-based industrial conglomerate headed by Mr. Li Ka-shing, one of Asia’s wealthiest individuals. Whampoa’s business interests operate in the following areas: worldwide port operations (for which the company completed an IPO during March 2011); property and hotels located primarily in Hong Kong and Mainland China (the company recently announced plans to launch China’s first yuan-denominated IPO, a commercial property REIT); retail in Asia, with a network of over 8,700 retail stores; energy and infrastructure, primarily through its investments in listed Husky Energy (“Husky”) and Cheung Kong Infrastructure (“CKI”); telecommunications, where it is a leading telecom services provider in thirteen countries; and various other investments, comprising ownership stakes in a variety of consumer goods and healthcare companies in Asia. On a consolidated basis, Whampoa is currently trading at 1.04x its 12/31/2010 book value, following a share price increase of more than 80% since mid-July 2010. If one were to strip out the value of its publicly traded stakes in Husky, CKI, Hutchison Telecommunications Hong Kong (215 HK), and the recently listed ports business, Hutchison Port Holdings Trust (HPHT SP), one would be purchasing Whampoa’s profitable and expanding suite of core businesses at 1.10x book value (see exhibit below).

Whampoa owns two private telecom businesses: 3 Group, which provides wireless services to nearly 28 million people in Europe and Australia, and Hutchison Asia Telecom, which offers mobile services to 19 million people in Southeast Asia and was acquired by the company on May 25, 2010. It should be noted that Hutchison Asia is currently posting operating losses as it builds out its presence in various emerging markets – a strategy with long-term benefits that may not yet be reflected in the company’s share price because of these development-stage losses. Moreover, in addition to these businesses, Whampoa owns a majority stake in listed Hutchison Telecommunications Hong Kong (215 HK).

It could further be argued that the value of the company’s port operations accounts for the majority of the Whampoa stub’s value. Whampoa’s port business, which was established in 1969, is the company’s flagship business. Currently, Whampoa operates in Hong Kong through Hongkong International Terminals, one of the world’s busiest container terminal operators. Additionally, Whampoa has port operations around China and throughout the world. On January 3, 2011, Hutchison announced it had agreed to acquire port and property assets from partner China Resources for HKD5.7 billion (\$732 million). Despite a recent drop in cargo volumes worldwide, China’s continued economic development is expected to be a key growth driver for ports businesses because increases in cargo throughput historically appear to be correlated with GDP growth. The listing of this business in Singapore raised the capital needed to continue expanding, while still permitting Whampoa to retain a significant amount of control. Recently, Chairman Li Ka-shing has expressed interest in listing certain of the company’s other private businesses following the success of the ports business, in an effort to realize an increased valuation of its diversified, and arguably underappreciated, assets. That said, there is no definitive timeline for these actions.

By excluding the market value of Husky, CKI, 215 HK, and Hutchison Port Holdings, Whampoa’s remaining operations (which include the two private telecom businesses, retail, property and hotels, and the investments businesses) are valued by the market at only HKD215 billion. It should be noted that these businesses are accounted for within Whampoa’s balance sheet at an estimated HKD196 billion, implying that they trade at a 1.10x price-to-book value multiple.

<i>(HKD in millions, except share prices)</i>		Book Value	P/B			Book Value	P/B
Hutchison Whampoa share price	HKD 86.45			215-HK share price	HKD 2.44		
Shares outstanding (millions)	4,263.4			Shares held by Hutchison Whampoa (65%)	3,132.9		
Market capitalization	HKD 368,568	HKD 352,702	1.04x	Less: value held by Hutchison Whampoa	(HKD 7,644)	(HKD 9,054)	
Husky share price	HKD 230.83			Hutchison Port Holdings share price	HKD 6.93		
Shares held by Hutchison Whampoa (35%)	307.7			Shares held by Hutchison Whampoa (27%)	2,403.7		
Less: value held by Hutchison Whampoa	(HKD 71,035)	(HKD 43,493)		Less: value held by Hutchison Whampoa	(HKD 16,648)	(HKD 44,942)	
CKI share price	HKD 39.05						
Shares held by Hutchison Whampoa (85%)	1,906.6						
Less: value held by Hutchison Whampoa	(HKD 74,453)	(HKD 58,971)					
Adjusted value, ex. Husky and CKI	HKD 223,080	HKD 250,238	0.89x	Adjusted value, ex. Husky, CKI, 215-HK, and ports	HKD 215,443	HKD 196,242	1.10x

Source: Thomson One and Institutional Research Group

BITS & PIECES

Icahn Enterprises (IEP); Federal-Mogul (FDML); American Railcar (ARII); Viskase Cos. (VKSC)

Icahn Enterprises (NYSE: IEP) is majority-owned by investor Carl Icahn, who owns over 93% of IEP's depository units. IEP comprises businesses in the investment management, automotive (via a 76% stake in Federal-Mogul [NASDAQ: FDML], a supplier of vehicle products), metals, real estate, home fashion, railcar (via a 54% stake in American Railcar [NASDAQ: ARII], a railcars manufacturer), and food packaging industries (via a 71% stake in Viskase Cos. [OTC: VKSC], a producer of plastic casings for processed meats). When subtracting the market value of the company's stake in FDML, ARII, and VKSC from the IEP market capitalization, the IEP stub trades at a significant discount to the estimated fair value of its private businesses.

When subtracting the market value of its ownership in FDML, ARII, and VKSC from IEP's market capitalization, the IEP stub enterprise value is \$856 million net of a \$781 million cash position. This cash position includes \$2.8 billion of parent company investments held in private funds within the investment management division. If one were to undertake the exercise of valuing the private businesses, the metals business could be valued at 1.0x its 2010 revenues, and the real estate, home fashion, and gaming businesses each could be valued at 1.0x book value (excluding debt and cash components), resulting in a total value of \$2.3 billion for these private businesses, which are being assigned an enterprise value of \$856 million.

On March 8, 2011, IEP announced that it would return all fee-paying capital to investors within the next few months, implying that the investment management business housed within IEP will no longer contribute to the company's earnings in any direct manner. As such, approximately \$1.6 billion in fee-paying assets under management will be returned to investors. One of the factors that historically warranted a high EV/AUM multiple for IEP's investment business was the premium in performance fees that it received from clients, as these fees were above average at 25% of net profits generated (both realized and unrealized), subject to a high watermark, whereas other asset managers' fees were historically lower.

There appears to be a high degree of optionality in IEP's auto business and its investment in the Fontainebleau hotel/casino in Las Vegas. First, one must consider the possibility of consolidation within the auto industry and the impact this could have on FDML's earnings. Should auto parts suppliers consolidate in a manner that affords them a higher degree of pricing power, the resulting margin improvement could benefit the profitability of FDML. If FDML were able to maintain the 3.0% net margin that it posted during 1Q 2011 throughout the rest of the year, earnings could increase to \$205 million (assuming consensus revenue of \$6.8 billion). In this scenario, FDML would be trading at approximately 10x earnings. Second, IEP paid \$150 million for the Fontainebleau, an unfinished, distressed hotel/casino, which holds a high degree of optionality because the project's developers had invested \$2 billion in construction prior to IEP's involvement.

In December 2010, IEP announced its intention to acquire Dynegy Inc. (NYSE: DYN), a wholesale power provider for utilities in seven US states, for \$665 million in cash and the assumption of approximately \$3.9 billion in debt. However, DYN shareholders rejected the bid, prompting the company's CEO and all of its Board members to resign in order to facilitate the appointment of major shareholders, including Mr. Icahn, to the Board of Directors. It appears likely that under the new regime, DYN will seek to sell select assets and reduce debt levels, an especially important endeavor in the face of the "going concern" clause appended by its auditors to its latest annual filing. IEP holds approximately 10% of DYN shares.

(US\$ in millions, except ratios and per-share data)

IEP share price	\$42.50	Adjusted market value	\$1,637
Depository Units (mn.)	84.7	Net cash adjustment from Metals, Real Estate, Home Fashion, Gaming, and	(\$781)
Market capitalization	\$3,601	Holding Co. segments, as well as cash attributable to IEP in Investment Co.	
		Adjusted EV of IEP private businesses	\$856
FDML share price	\$21.49		
Shares held by IEP (76%)	75.2	Valuation of IEP private businesses:	
Less: value held by IEP	\$1,617	Metals @ 1.0x 2010 Revenue	\$725
		Real Estate @ 1.0x Current BV (plus net debt)	\$786
ARII share price	\$20.91	Home Fashion @ 1.0x Current BV (less net cash)	\$306
Shares held by IEP (54%)	11.6	Gaming @ 1.0x Current BV (less net cash)	\$482
Less: value held by IEP	\$242	Total value of IEP private businesses	\$2,299
VKSC share price	\$4.10		
Shares held by IEP (71%)	25.6		
Less: value held by IEP	\$105		
Adjusted market value	\$1,637		

Source: Thomson Reuters and Institutional Research Group

BITS & PIECES

Loews Corp. (L); CNA Financial (CNA); Diamond Offshore (DO); Boardwalk Pipeline (BWP)

NYSE-listed Loews Corp. is a New York-based holding company with a broad range of business interests. Loews Corp.'s current holdings include the following publicly listed companies: a 90% interest in CNA Financial (NYSE: CNA), a commercial property and casualty insurance company; a 50% interest in Diamond Offshore Drilling (NYSE: DO), an offshore oil and gas drilling rig operator; and a 65% interest in Boardwalk Pipeline Partners (NYSE: BWP), an interstate natural gas pipeline operator. Loews Corp. also wholly owns two private businesses: HighMount E&P, which is involved in the exploration, production, and marketing of natural gas; and Loews Hotels, a luxury hotel chain. Loews Corp. is unusual for a holding company because a large portion of the value of its holdings is in publicly listed companies. This circumstance offers investors an easily identifiable market valuation for a large portion of the company, which can then be assessed in a sum-of-the-parts context. On this basis, one finds that the current market value of Loews Corp. is less than its net cash plus the current ownership-weighted market capitalizations of the publicly listed companies it owns, with no consideration being given to its other businesses.

Loews's current market capitalization is \$16.7 billion. However, as seen in the exhibit below, the value of Loews's ownership stakes in its publicly traded companies, plus its \$3.8 billion in net cash, is currently \$19.2 billion. Based on this discrepancy, the shares of Loews are trading at a 13% discount to the value of the company's equity stakes in CNA, DO, and BWP plus net cash. Stated differently, an investment in Loews represents the opportunity to buy, at a discount, a stake in its publicly traded entities and its cash, while obtaining a stake in the company's private businesses for free. Additionally, if one were to assign a trailing 2010 sales multiple to Loews Hotels, as well as a trailing 2010 earnings multiple to HighMount, the parent company discount to the sum-of-its-parts is even greater. Using comparable company multiples for Loews Hotels and HighMount, one could argue that Loews's private businesses are valued at \$2.8 billion, bringing the total discount for Loews Corp. to 24%.

There is also significant optionality related to the value of CNA, which is currently trading at a 30% discount to book value. In November 2010, CNA tendered for the remainder of SUR's outstanding shares for \$22.00 per share, but SUR's Board of Directors did not support the proposal, stating that the price offered was not fully reflective of fair value. On June 9, 2011, CNA and SUR announced that the acquisition had been effected, at a price of \$26.55 per share.

Although Loews Corp. trades at a P/BV multiple of 0.99x, it should be noted that in the past the market has assigned a premium to the company's book value as high as 1.59x, and that the ten-year P/BV valuation is 1.06x. Further, it should be noted that book value dramatically understates Loews Corp.'s intrinsic value on a sum-of-the-parts basis. Because of this, and given Loews's history of monetizing assets and realizing the latent value of its publicly traded holdings, as witnessed by its distribution of Lorillard (NYSE: LO) shares in 2008, one could argue that a premium to book value is justified. At such a discount to its core holdings, shares of Loews appear to be an attractive long-term opportunity.

	Loews's Ownership	Shares Out. (mn)	Share Price	Total Equity (mn) Valuation	Value to Loews (mn)
Publicly Traded Assets + Cash					
CNA Financial	90%	269	\$29.25	\$7,877	\$7,090
Diamond Offshore	50%	139	\$68.47	\$9,519	\$4,798
Boardwalk Pipeline	65%	193	\$27.80	\$5,354	\$3,480
Net Cash and Investments at Parent					\$3,784
Value of Publicly Traded Holdings + Net Cash					\$19,151
	Loews's Ownership	2010 Rev. (mn)	2010 Net Income (mn)	Comp. Multiples	Value to Loews (mn)
Other Assets					
Loews Hotels Holding Co.	100.0%	\$308	N/M	2.1x	\$660
HighMount Exploration and Production	100.0%	N/M	\$77	27.9x	\$2,147
Total Other Assets					\$2,807
Sum-of-the Parts Valuation of Loews					\$21,958
Loews Corp. - Equity Value					\$16,688
Discount to Publicly Traded Holdings + Net Cash					12.9%
Discount to Sum-of-Parts Valuation					24.0%

Source: Company reports, Thomson One, and Institutional Research Group

BITS & PIECES

Melco International Development Ltd. (200 HK); Melco Crown Entertainment Ltd. (MPEL)

Melco International holds a 33.4% equity interest in Melco Crown Entertainment (“Crown”), a gaming company that has secured one of six concessions to operate casinos in Macau. In December 2006, Crown completed an initial public offering in the US, and at Crown’s current price, Melco International’s interest in its subsidiary is valued at \$2.0 billion. Meanwhile, Melco International’s own equity market capitalization is just \$1.2 billion at current exchange rates. Thus, the Melco International stub trades at a negative enterprise value, after giving effect to the market value of Crown and the company’s net debt of \$47 million (see exhibit below).

The Chinese government has indicated that no additional casino concessions will be issued in the foreseeable future, eliminating the threat of further competition in the short run. In 2008 and 2009, revenues at the enclave of Macau grew about 31% and 10%, respectively, despite the global economic downturn and a government-imposed restriction on Chinese mainlanders’ visits. In 2010, revenue increased 58% year-over-year to a record \$23.5 billion, driven by increased traffic and continued growth in China’s economy. Going forward, Crown may benefit from the positive growth trend in Macau gaming revenues if it is successful in marketing its newly opened City of Dreams casino.

Crown has approximately 603,000 square feet of gambling space in its Macau casinos. If Crown were to achieve revenues based on a metric of sales per square foot of gambling space comparable to those of the Las Vegas Sands (LVS) operations in Macau during 2010, and if it were to achieve a comparable adjusted EBITDA margin of 34%, then EBITDA would be approximately \$917 million for Crown’s Altira Macau and City of Dreams properties alone, without giving consideration to the operations of its Macau Mocha Clubs centers. This compares with consolidated consensus EBITDA estimates for 2011 and 2012 projecting increases to \$536 million and \$604 million, respectively, which are still considerably less than the previously cited \$917 million figure.

As illustrated in the exhibit below, the market value of Melco International’s equity stake in Crown is higher than Melco International’s own market capitalization. The discount becomes even more staggering when one considers that, exclusive of its Crown holding, Melco International operates a variety of profitable businesses, including lottery, gaming, resorts, and entertainment properties, across Asia.

<i>(US\$ in millions, except per-share data)</i>	
Melco International Development share price	\$0.96
Shares outstanding (millions)	1,231
Market capitalization	\$1,178
Melco Crown Entertainment share price	\$11.17
Shares held by Melco International (33.4%)	179
Less: value held by Melco International	(\$2,000)
Adjusted market value	(\$822)
Net debt	\$47
Net enterprise value	(\$775)
Melco International share price in home currency	HKD 7.45
Exchange rate (per US\$)	HKD 7.78
Melco International share price in US\$	\$0.96

Source: Thomson Reuters and Institutional Research Group

BITS & PIECES

New World Development Company Ltd. (17 HK); NWS Holdings Limited (659 HK); New World China Land Limited (917 HK); New World Department Store China Limited (825 HK)

New World Development (“NWD”) is a Hong Kong-based investment holding company with significant ownership stakes in other publicly traded entities, namely: a 57% stake in NWS Holdings, a 70% stake in New World China Land, and a 72% stake in New World Department Store China. The parent company’s current market capitalization of HKD50 billion represents a 47% discount to book value (excluding minority interests) of HKD94 billion, with the bulk of this discount attributable to the fact that New World China Land currently trades at 0.4x book value. If one strips out the market value of NWD’s ownership of these public holdings and compares this adjusted market capitalization to adjusted shareholders’ equity, one finds that the parent company stub is currently trading at 0.73x book value (see exhibit below).

Although New World Development Company trades at a discount to book value, the company has exhibited compounded annual book value per share growth of 8.6% during the last five years, despite the down year in 2009 (see table below). A longer-term study, although challenging due to accounting changes in 2005 (restated 2004 figures are given), shows that book value per share had declined by a compound annual rate of over 12% between 2000 and 2004, implying that NWD’s fundamentals may not be as robust as those of other comparable holding companies.

	Jun-05	Jun-06	Jun-07	Jun-08	Jun-09	Jun-10	5-Yr. CAGR
Equity Attr. To Shareholders (HKD mn.)	50,900.1	53,275.5	60,487.6	72,394.8	74,412.3	86,351.0	
Shares Outstanding (mn.)	3,491.6	3,639.1	3,692.1	3,736.5	3,867.3	3,918.0	
Equity to Shareholders/Share	HK\$14.58	HK\$14.64	HK\$16.38	HK\$19.38	HK\$19.24	HK\$22.04	8.6%
Growth - %	11.0%	0.4%	11.9%	18.3%	-0.7%	14.5%	

Nearly 60% of NWD’s assets are attributable to real estate, connected to property investment and development operations either in Hong Kong (via NWD) or in Mainland China (via New World China Land). As such, NWD’s discount to book value may be explained by current concerns over property valuations in China and the impact that potentially lower real estate prices will have on these assets going forward. It should be noted that New World China Land currently trades at 0.4x book value.

Aside from its real estate operations, NWD operates a telecommunications business, a services and infrastructure business (via NWS Holdings), and both self-owned and managed department stores throughout China (via New World Department Store China). NWD recently announced that it would seek to list its Chinese iron-ore mining business, Newton Resources (part of NWS Holdings), in June 2011. For those investors who do not believe that a China real estate bubble exists, NWD offers diversified exposure to Mainland and Hong Kong real estate, while New World China Land offers a more direct investment vehicle on property in the Mainland. Contrary to the notion that there is a Chinese real estate bubble, the deep discounts to book value are not suggestive of a bubble mentality and, in any event, already discount the possibility of substantial price risk (it should be noted that the value of the company’s investment properties is recorded on the balance sheet at fair value).

(HKD in millions, except per share amounts)

New World Development Co. share price	HK\$12.60	NWD Market Capitalization	HK\$49,647
Shares Outstanding	3,940.2	Less:	
Market Capitalization	HK\$49,647	NWS Holdings Ltd. share price	HK\$10.44
		Shares Owned by NWD (57%)	1,181
		Value to NWD	HK\$12,326
Total Equity Attributable to Shareholders	HK\$94,063	New World China Land Ltd. share price	HK\$2.82
Price/Book Value	0.53x	Shares Owned by NWD (70%)	4,029
		Value to NWD	HK\$11,363
		New World Department Store China share price	HK\$6.19
		Shares Owned by NWD (72%)	1,214
		Value to NWD	HK\$7,515
		Adj. Market Capitalization	HK\$18,443
		Adj. Total Equity Attributable to Shareholders	HK\$25,192
		Adj. Mkt. Cap/Adj. Book Value	0.73x

Source: Thomson One, company reports and Institutional Research Group estimates.

BITS & PIECES

Siem Ind. (SEMUF); Subsea 7 SA (SUB NO); Siem Offshore (SIOFF NO); STAR Reefers (SRI NO)

Siem Industries is a holding company involved in the oil and gas service industry and the marine transportation and shipping industry. The current market capitalization of Siem Industries is less than the aggregate market value of the shares it owns in three publicly traded subsidiaries: Subsea 7 SA (which recently merged with competitor Acergy SA), Siem Offshore, and STAR Reefers. Although these are the three most significant holdings, another large portion of the company's operations consists of investments in a variety of public and private companies. Notably, the market value of its holding in Subsea 7 SA alone, valued at \$1.6 billion, is 47% larger than Siem Industries' market capitalization of \$1,106 million (see exhibit below).

Siem Industries is the holding company of Kristian Siem, who has made significant investments in many companies in the maritime industry. The company often provides debt and equity financing to cyclically distressed businesses, frequently as part of a group of other large investors. These initial positions are often increased through private placements and rights offerings, and the companies in question are then used as vehicles to acquire other companies in the same industry.

Aside from the three publicly traded subsidiaries, Siem Industries owns 100% of Siem Car Carriers Inc., a private company that owns vessels that transport cars; 64% of Siem Capital AB, a privately held investment fund that owns significant positions in a variety of Scandinavian companies; 100% of Siem Investments; 49% of Deusa International, a German company primarily engaged in the mining of potash, which is used for fertilizer production; and 51% of Deep Seas Insurance, an insurance affiliate that participates as co-insurer on marine insurances, alongside which Subsea 7 owns the remaining 49% interest. The value of Siem's private investments is not clearly disclosed in the company's financial statements. Therefore, for the purpose of our calculation of NAV, no value has been assigned to these businesses.

Additionally, even though some of the company's recorded debt belongs to the listed subsidiaries, if one assumes that all of the debt belongs to the parent company and that no consideration is given to the \$38 million in cash, one would still arrive at a NAV of \$1.9 billion. At these levels, Siem's market value would represent a 41% discount to its NAV.

The significant discount in the price of the Siem stub may be explained by the fact that the Siem stock is rather illiquid. Indeed, as disclosed within the company's 2010 annual report, the free float of its traded shares is approximately 5%, or 1 million shares. Additionally, in the current market environment, where investors seek to maintain the nominal value of their portfolios by undertaking transactions to either raise or lower the volatility of their portfolios, Siem can have only limited utility. As a practical matter, Siem is not tradable in large quantities. Thus, many of the discounts that are apparent in holding companies such as Siem arise from issues of liquidity, not from the notion of inherent value.

<i>(US\$ mn., except per-share data)</i>	Shares Held (mn)	Share Price	Value
Subsea 7 SA (18.6%)	65.4	\$24.78	\$1,621
Siem Offshore (33.7%)	133.3	\$2.08	\$278
STAR Reefers (73.5%)	7.1	\$14.81	\$105
Market Value of Public Holdings			\$2,004
Consolidated Debt (12/31/10)			(\$136)
Net Asset Value			\$1,868
Siem Industries	15.4	\$72.00	\$1,106
Discount to mkt. value of public holdings			44.8%
Discount to NAV			40.8%

Subsea 7 share price in NOK	NOK 134.30	STAR Reefers share price in NOK	NOK 80.25
Siem Offshore share price in NOK	NOK 11.30	Exchange rate (per US\$)	NOK 5.42

Source: Thomson Reuters and Institutional Research Group

BITS & PIECES

Swire Pacific (19 HK); Cathay Pacific (293 HK); Hong Kong Aircraft Engineering (44 HK)

Swire Pacific is a Hong Kong-based holding company with five operating divisions: Property, Aviation, Beverages (Swire is one of the largest Coca-Cola bottlers in Asia), Marine Services, and Trading and Industrial. The company's current market capitalization is HKD177 billion and its book value is HKD204 billion, implying a P/BV of 0.87x. If one strips out the market value and book value of Swire's ownership of its publicly listed investments in Cathay Pacific and Hong Kong Aircraft Engineering Company (HAECO), the remaining stub market value is HKD130 billion and the book value is HKD166 billion, implying a P/BV of 0.78x. Such a discount to book value is unwarranted given that the company has been able to grow book value at a CAGR of 13% during the last decade (see table below).

HKD	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	CAGR
Book Value/Shr. "A"	46.74	44.98	44.50	56.84	68.77	83.93	100.74	100.79	114.86	138.67	12.8%

Swire Pacific owns equity stakes in two publicly listed aviation companies in Hong Kong, in an industry that appears ripe for recovery. Swire owns a 42% stake in Cathay Pacific Airways, Hong Kong's largest carrier. Cathay itself holds a 19% interest in Air China, the leading passenger and cargo carrier in Mainland China, and is in the process of creating a joint-venture cargo airline with Air China in an attempt to benefit from an expected increase in the region's cargo volumes. Swire also holds a 76% stake in HAECO, which performs aircraft overhauls and provides maintenance services, with operations in Hong Kong and Mainland China.

The majority of Swire Pacific's book value comprises commercial and residential real estate investments. The company mainly develops office and retail real estate in Hong Kong, along with hotels and luxury homes, with a completed portfolio of 15.1 million square feet. In addition, the company has projects underway in China spanning 7.0 million square feet, as well as completed projects with 1.6 million square feet. Swire Pacific also maintains a property trading portfolio, with land, residential developments, and apartments for sale in Hong Kong and Florida.

If one strips out the market value and book value of Swire's listed investments in Cathay Pacific and HAECO, the remaining stub market value is HKD130 billion and the book value is HKD166 billion, implying a P/BV of 0.78x. Such a discount to book value is unwarranted given the company's ability to grow book value per share during the last decade. Further, although questions linger regarding current property valuations in China, not all Hong Kong-based real estate companies trade at such significant discounts to book value. That said, given the concerns regarding property valuations in China, one could conservatively value Swire Pacific's real estate investments at half of their current value, implying an adjusted book value of HKD112 billion (HKD166 billion less half of the properties' HKD109 billion in valuation surplus, deferred taxation, and other net liabilities) as of December 31, 2010, which would, in turn, imply that the stub trades at 1.16x book value. Valuing this portfolio at half of its current value is arguably conservative, however, as most properties were developed in the 1980's and 1990's.

<i>(HKD in millions)</i>		Book Value	P/B			Book Value	P/B	
Swire Pacific A share price	HKD 120.50			Cathay Pacific share price		HKD 19.16		
Shares outstanding (millions)	905.6			Shares held by Swire Pacific (42%)		1,651.0		
	HKD 109,122			Less: value held by Swire Pacific		(HKD 31,634)	(HKD 22,140)	
Swire Pacific B share price	HKD 22.70			HAECO share price		HKD 121.50		
Shares outstanding (millions)	2,995.2			Shares held by Swire Pacific (76%)		126.2		
	HKD 67,991			Less: value held by Swire Pacific		(HKD 15,328)	(HKD 15,863)	
Market capitalization	HKD 177,114	HKD 204,452	0.87x	Adjusted value, ex. Cathay and HAECO		HKD 130,152	HKD 166,449	0.78x
				Less: half of property investments valuation surplus			(HKD 54,527)	
				Adj. value, ex. Cathay and HAECO; property at 50%		HKD 130,152	HKD 111,922	1.16x

Source: Thomson One and Institutional Research Group.

BITS & PIECES

Universal Entertainment Corporation (fka Aruze Corp.) (6425 JP); Wynn Resorts (WYNN)

Universal Entertainment Corporation (UEC), formerly known as Aruze Corp., is a Japanese company that primarily manufactures quasi-gaming machines. The pertinent variable for UEC as a *Bits & Pieces* subject is its 19.9% ownership interest in Wynn Resorts. When this holding in Wynn is subtracted from UEC's market capitalization, the UEC stub totals negative \$874 million, despite the fact that UEC's book value minus that of the Wynn investment is about \$1.4 billion (see exhibit below). Consequently, an investor is receiving UEC's businesses, which include the quasi-gaming business and a broadcasting business, as well as the future operations of a Philippine casino, at a steep discount to book value. Alternatively, UEC represents a cheaper alternative to purchasing Wynn Resorts outright.

The quasi-gaming machines that UEC manufactures, called pachinko and pachislot, are similar to slot machines found in Western casinos, allowing the Japanese to partake in games of chance even though gambling is illegal in Japan. UEC's other businesses include a broadcasting and marketing arm, as well as the future operations of a Philippine casino, which is scheduled to open during the summer of 2013 and should be listed via an IPO in Hong Kong in 2012.

Apart from its Las Vegas operations, Wynn also operates a casino in Macau, the Chinese enclave where revenue from casino operations has surpassed that of Las Vegas, reaching over \$15 billion in 2009. On October 9, 2009, Wynn divested a portion of its Macau operations through an IPO in Hong Kong, retaining a 75% stake. At a net debt position of approximately \$2.0 billion, Wynn currently has an enterprise value of \$18.6 billion. Subtracting the market value of Wynn's 72% stake in Wynn Macau would allow one to derive an enterprise value of \$6.7 billion for the Las Vegas operations, which generated \$270 million in EBITDA during 2010.

The UEC stub clearly does not reflect the value of the company's assets. For example, UEC has shareholders' equity of \$1.8 billion. Even if the company's investment securities, which represent the book value of the Wynn Resorts investment, were deducted, the adjusted book value would amount to \$1.4 billion. Moreover, a substantial majority of assets consists of tangible assets, as goodwill represents only \$2 million of the total. A plausible explanation for the valuation discrepancy might be that Wynn Resorts is overvalued, or it may be that earnings have yet to be fully realized.

<i>(US\$ in millions, except per-share data)</i>	<u>Per Share</u>	
UEC share price	\$34.59	
Shares outstanding (millions)	80	
Market capitalization	\$2,774	
Wynn share price	\$148.63	
Shares held by UEC (19.9%)	25	
Less: value held by UEC	(\$3,648)	(\$45.48)
Adjusted market value	(\$874)	(\$10.89)
Vs. UEC stated book value	\$1,836	\$22.90
Less: book value of Wynn investment	(\$427)	(\$5.33)
Adjusted book value	\$1,409	\$17.57
UEC share price in home currency	¥2,799	
Exchange rate (per US\$)	¥80.92	
UEC share price in US\$	\$34.59	

Source: Thomson Reuters and Institutional Research Group

BITS & PIECES

DISCONTINUED POSITIONS

Name	Ticker	Inclusion Date	Inclusion Price	Discontinue Date	Discontinue Price	Current Price
Time Warner Inc.	TWX	Jul-08	\$41.58 *	Apr-09	\$22.23	\$34.63
Time Warner Cable	TWC	Jul-08	\$77.13 *	Apr-09	\$28.80	\$73.81
Cairn Energy	CNELN	Jun-07	\$35.62	May-09	\$34.84	£4.12
Cairn India	CAIR IN	Jun-07	\$3.41	May-09	\$4.40	INR 336.45
Hutchison Telecom	2332 HK	Nov-08	\$18.95	Aug-09	HKD 2.01	HKD2.20**
Partner Communications	PTNR	Nov-08	\$17.02	Aug-09	\$17.29	\$16.23
Liberty Entertainment	LMDIA/LMDIB	May-09	\$23.92	Dec-09	-	-
DirecTV	DTV	May-09	\$24.23	Dec-09	\$32.78	\$46.72
Liberty Starz	LSTZA	May-09	-	Dec-09	\$49.20	\$79.95
Porsche Auto Holding SE	PAH3 GR	Nov-08	€59.00	Apr-10	€46.05	€46.97
Volkswagen AG	VOW GR	Nov-08	€394.13	Apr-10	€72.85	€117.95
ICICI Bank	IBN	Jan-08	\$62.26	Jul-10	\$36.22	\$46.15
Financial Services Subs.	-	Jan-08	-	Jul-10	-	-
Macquarie Airports	MAP AU	Dec-06	AUD 3.65	Jul-10	AUD 2.64	AUD 3.13
Copenhagen Airports	KBHL DC	Dec-06	AUD 432	Jul-10	AUD 264	AUD 289
Bank of America Corp.	BAC	Jan-09	\$14.28	Aug-10	\$13.96	\$10.80
BlackRock Inc.	BLK	Dec-07	\$216.15	Aug-10	\$157.16	\$185.82
China Construction Bank	939 HK	Mar-09	HKD 4.20	Aug-10	HKD 6.87	HKD 6.84
Penn Virginia GP Holdings	PVG	Mar-09	\$9.12	Oct-10	\$23.61	\$25.49
Penn Virginia Resource Partners	PVR	Mar-09	\$9.55	Oct-10	\$25.17	N/A
LaBranche & Company	LAB	Jun-05	\$6.09	Dec-10	\$3.18	\$3.74
NYSE Euronext	NYX	Jun-05	N/A	Dec-10	\$18.94	\$34.24
Retail Ventures, Inc.	RVI	Sep-09	\$4.35	Dec-10	\$16.52	\$46.61
DSW, Inc.	DSW	Sep-09	\$13.67	Dec-10	\$38.74	\$46.61
PNC Financial Services	PNC	Feb-10	\$50.75	Feb-11	\$64.21	\$59.07
BlackRock Inc.	BLK	Feb-10	\$204.66	Feb-11	\$199.62	\$185.82
Genting Berhad	GENT MK	Feb-10	MYR 6.72	Feb-11	MYR 10.40	MYR 11.32
Genting Singapore	GENS SP	Feb-10	MYR 2.66	Feb-11	MYR 4.93	MYR 4.73
Genting Malaysia	GENM MK	Feb-10	MYR 2.75	Feb-11	MYR 3.44	MYR 3.58
Genting Plantations	GENP MK	Feb-10	MYR 6.05	Feb-11	MYR 8.45	MYR 7.99
EMC Corp.	EMC	Sep-07	\$19.29	Mar-11	\$26.76	\$26.32
VMware Inc.	VMW	Sep-07	\$78.07	Mar-11	\$84.30	\$93.46
Hochtief AG	HOT-XE	May-10	€50.49	Apr-11	€68.76	€59.80
Leighton Holdings	LEI-AU	May-10	AUD 20.86	Apr-11	AUD 28.94	AUD 21.72

* Split-adjusted price

** Selling price

Source: Thomson Reuters and Institutional Research Group