

Bilbel Capital

Semi-Annual Letter - 2nd August 2026

Returns Since Inception	Bilbel Capital Gross	Bilbel Capital Net	S&P 500 Index
2022	210.5%	158.4%	-15.0%
2023	53.7%	31.6%	26.3%
2024	140.4%	110.2%	25.0%
2025	91.1%	58.0%	17.9%
1H 2026	-15.7%	-16.1%	10.2%
Total Return	1,748.3%	847.1%	74.3%
<i>Annualized Return</i>	<i>93.9%</i>	<i>66.6%</i>	<i>13.4%</i>

Results till 2025 were independently verified by The Spaulding Group. Results from 2026 onwards will be audited yearly by Cherry Bekaert LLP. Net returns deduct a yearly 1% management fee and a 25% performance fee (over a 6% annual hurdle). For more information, refer to the footnotes.

**If you're a high net worth individual or family office,
and want to partner with us, [get in touch](#).**

Dear Partners,

You trusted your wealth with our judgement. **We are deeply grateful.**

If any part of our letter is unclear, it is our fault.

We found a few rare opportunities. We still expect to buy more of them over time. So we can't share most yet. But we'll give a short summary, and more on Water Oasis Group.

Top 5 Positions

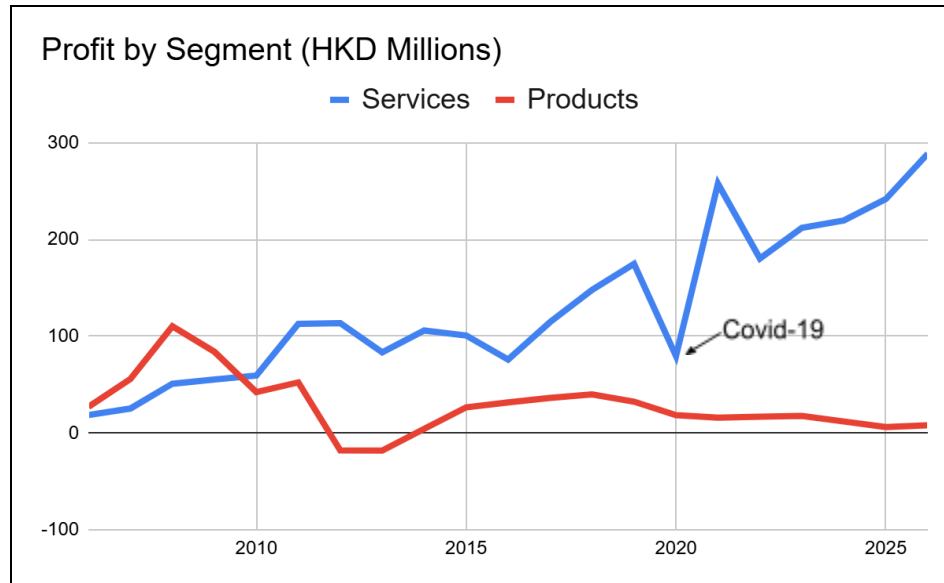
1. Critical infrastructure with strong long-term profits. It also owns assets outside the core business worth more than today's market price.
2. Prime real estate. Trades at 1/7th our estimate of value.
3. Water Oasis Group Limited.
4. Monopoly infrastructure with stable long-term profits.
5. Commercial properties. Trades at 1/6th our estimate of value.

We paid under 3.5 times a normal year's profit for all five. Each has a strong balance sheet.

Water Oasis Group Limited

Water Oasis began by selling beauty products. Over 25 years, it grew into one of Hong Kong's top beauty-services groups.

Today, services make up 93% of revenue. And nearly 100% of profit.



*Services profit has compounded at **14.9%** a year since 2002.*

Information gap

Most beauty treatments affect the face. The face affects how a customer sees herself, and how others see her. Each effect reinforces the other.

She cares deeply about her result. But she must choose before she can see it, or judge the treatment.

This makes choosing feel risky. She can feel safer in only 2 ways:

- 1. Knowledge.** She learns enough to judge the process.
- 2. Brand.** She relies on links already formed in her mind.

Learning takes more time and mental effort. So most customers rely on brands.

Brand - Lower Risk, Higher Status

A link is a connection between 2 things in the mind. A brand is a set of links connecting many things to one.

A brand's impact depends on how many people hold those links, and how strongly they pull people toward or away from it.

For 25 years, Water Oasis has reinforced positive links in customers' minds. Today, these links **lower perceived risk** and **raise status**. This lets Water Oasis spend less to win each customer, charge higher prices, and keep them coming back.

(1) Perceived risk: how sure she is of getting the result she wants, safely.

Before treatment, Water Oasis' brand makes customers feel safer choosing it than other clinics. After a good result, her experience becomes her strongest link. Reinforcing what the brand led her to expect.

Beauty results fade, so she has to return for more treatment. Each good result makes Water Oasis feel safer, while trying another clinic still feels risky. As this gap grows, she becomes less willing to switch.

(2) Status: A person's perceived position relative to others in a group.

Water Oasis raises her status by improving her looks. It also shows others that she can access something her group **values**, but **few** can afford.

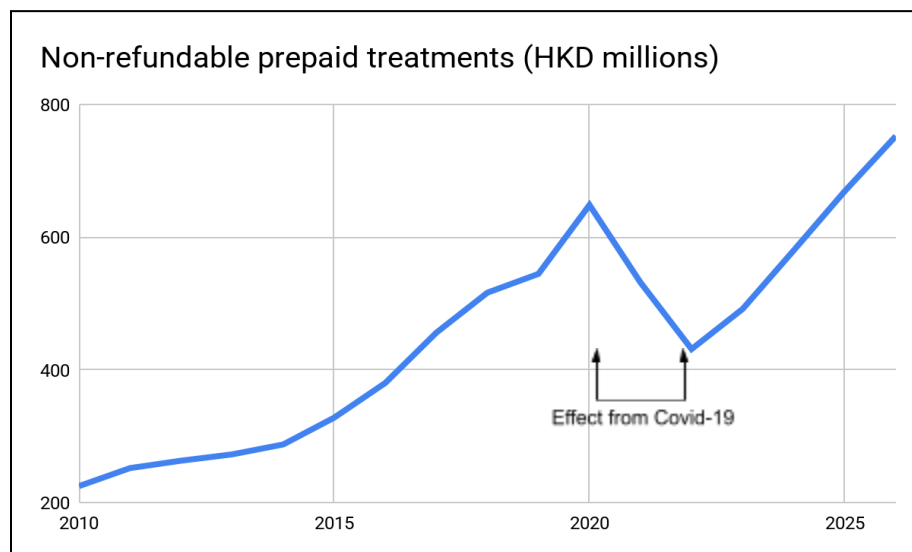
Prepaid treatments

Water Oasis gives customers discounts for buying many treatments in advance. But customers only prepay when the discount and brand value outweigh 3 risks:

1. Water Oasis may close down before treating her.
2. She may need the money before using the package.
3. She may use fewer treatments than she bought.

Customers expect Water Oasis to stay open. Their higher incomes makes it easier to pay upfront. Since beauty results fade, they expect to use every treatment they buy.

The discount rewards customers for taking these risks. The brand makes the treatments feel more valuable. Together, they make more customers willing to prepay.



Water Oasis records the treatments it owes customers as a 'contract liability'. And the prepaid cash as an asset.

How much cash is extra?

Water Oasis has HK\$1 billion in cash. This includes HK\$750 million of non-refundable customer payments – for treatments not yet provided.

If these prepaid treatments earn the same 20% net margin as today's business, providing them would cost HK\$600 million.

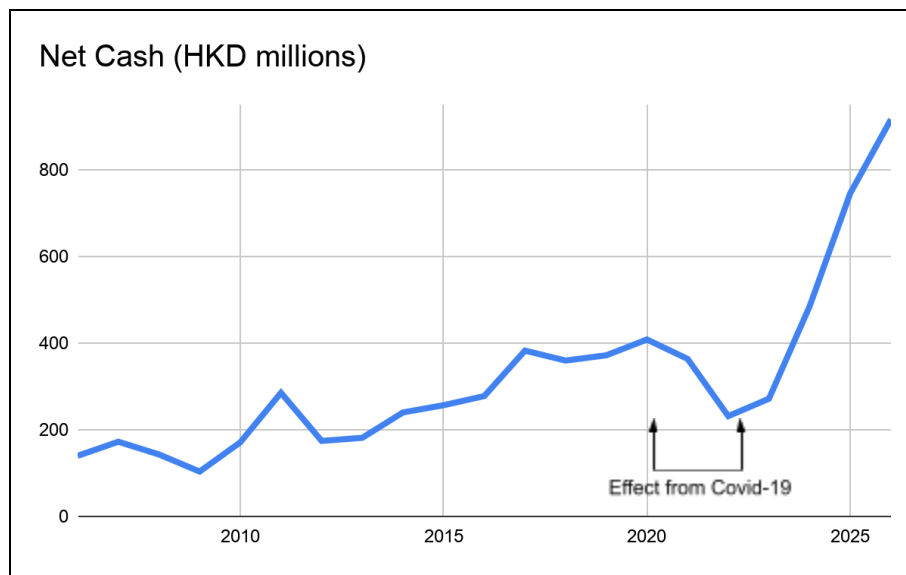
But new customers keep coming and paying for treatments in advance. Their payments cover the cost of treating customers who paid earlier.

So as long as sales do not shrink, the business keeps funding itself:

Scenario	Future Sales	Cash earned (8% of future sales)	Cash left after costs	Current cash left
Sales remain flat	No decline	Not needed	HK\$1,000M	HK\$1,000M
Sales fall 10% every year forever	HK\$6,750M	HK\$540M	+ HK\$300M	HK\$840M
Sales fall 20% every year forever	HK\$3,000M	HK\$240M	+ HK\$300M	HK\$540M
Sales fall 50% every year forever	HK\$750M	HK\$60M	+ HK\$300M	HK\$360M

We assume annual treatment sales start at HK\$750 million and decline by the stated percentage each year. Total future sales equal first-year sales divided by the annual decline rate. In the falling-sales cases, Water Oasis needs HK\$600 million to provide treatments already sold and HK\$100 million for closing costs. Future sales earn a 10% cash margin, but we count only 8%. Current cash left equals HK\$1 billion, less the HK\$700 million cost, plus cash earned from future sales. Future cash is not discounted. If sales remain flat, new prepayments continue covering treatment costs and no closing reserve is needed.

This allows Water Oasis to use most or all of its HK\$1 billion in cash:



What will Water Oasis do with the cash?

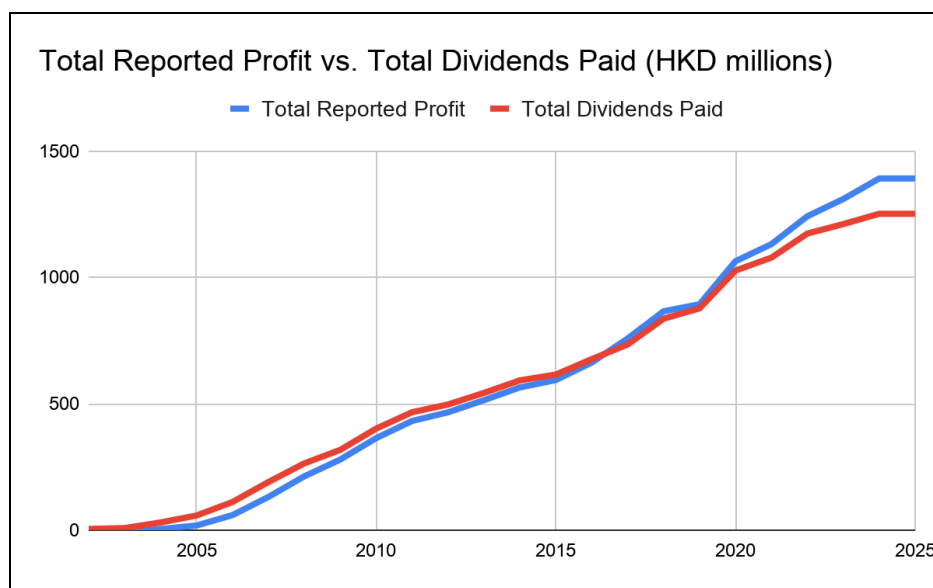
The founding family controls the company's cash through its 70% stake.

They used the cash in 4 ways:

- paying dividends
- opening new clinics
- buying back shares
- buying existing clinics

Since 2002, they have paid out 90% of all profits as dividends.

The family owns the company through 3 groups, but only one runs the business. Dividends give each group its share of cash without forcing them to agree on how else to use it.



Water Oasis used the rest of the cash to open clinics while new locations still earned high returns. It [bought back 11.5% of shares](#) when cash built up and the stock was cheap. During Covid, it [bought struggling clinics](#) for about 3 times yearly profit.

Today, opening new clinics does not attract enough new customers to earn high returns. It cannot buy back many more shares, because at least 25% must remain publicly owned.

This leaves only dividends and buying other clinics.

In May 2026, the family [raised the dividend by 43%](#). Right now, they are looking to buy other existing clinics.

“the Group is in a position to respond rapidly and effectively to acquisition opportunities as they arise.” - [Water Oasis 2025 Annual Report, Page 11](#)

Buying Existing Clinics

Most clinics promise similar beauty results. So customers will pay based on:

- How sure they feel about getting that result
- How much status the brand gives them
- How much time they save
- How convenient it is

Clinics in the city of Shenzhen pay less in rent and wages. So they can charge lower prices. But Hong Kong customers must take a 2-3 hour round trip to save that money.

Shenzhen clinics win price-sensitive customers who accept the travel time. Water Oasis wins customers willing to pay more for certainty, convenience, and status.

This squeezes small Hong Kong clinics from both sides. They cannot match Shenzhen's costs. And their brands are weaker than Water Oasis'.

When costs were lower, they still earned enough. But now, rising wages and equipment costs have lowered their profits. They have less cash for marketing and new equipment. So they attract fewer customers, offer poorer treatments, and get fewer repeat customers.

As this pressure builds, more owners become willing to sell.

Water Oasis can buy these clinics cheaply. It can cut costs with shared advertising and systems. Its stronger brands and better equipment can also attract more customers, and keep them returning.

All this lets Water Oasis earn high returns from buying them.

“The challenges in the Hong Kong market, which are not expected to alleviate in the near future, are likely to see lesser beauty players exiting the market in the months ahead. For the Group, this represents an opportunity for capturing further business, consolidating its leading position and reputation in the market.”

[Water Oasis 2025 Annual Report, Page 11](#)

Acquisition of Millistrong Group

In 2021, Water Oasis bought Millistrong Group – a Hong Kong beauty service provider.

Protests in 2019 and Covid in 2020 wiped out Millistrong’s profits. This made its owners willing to sell cheaply.

After subtracting Millistrong’s cash and adding deal costs, Water Oasis invested about HK\$29 million.

Millistrong’s customers had prepaid HK\$58 million for treatments. But new prepayments covered most of the cost of treating earlier customers. So Water Oasis needed little extra cash.

Before Covid, Millistrong normally earned HK\$7-12 million a year. On HK\$29 million invested, that is a **yearly return of 25-40%**.

Real profit

Two accounting items hide Water Oasis' real profit:

1. Investment property revaluations. These gains and losses are small compared to the company's value. They do not affect the cost of running the clinics. So we remove them.

2. Depreciation of Property, Plant & Equipment (PP&E), this has 2 parts:

- **Machines and equipment (35%).** Depreciating machines and equipment over 5 years is reasonable. Water Oasis must replace them as technology improves.
- **Clinic renovations (65%).** These costs are spread over the lease term. On average, leases expire in 1.6 years. But Water Oasis often renews its leases. And renovations last 6 years or more. **So, Water Oasis expenses the renovations nearly 4 times faster than it replaces them.**

To estimate real profit, we remove investment property revaluations. And replace PP&E depreciation with our estimated maintenance costs.

Valuation

Water Oasis can use HK\$1 billion of cash to pay dividends or buy clinics.

If it only spends HK\$300 million on clinics over the next 4 years, real profit could rise above HK\$250 million by 2030:

HKD Millions	2026E	2027E	2028E	2029E	2030E
Reported Net Profit	150	158	165	174	182
Add: PPE Depreciation	26	27	29	30	32
Less: Maintenance Costs	-13	-14	-15	-15	-16
Real Profit before buying clinics	163	171	179	188	198
Add: Profit from Buying Clinics	-	13	26	39	54
Real Profit	163	183	205	228	252
Real Profit Growth Rate	-	12.7%	11.8%	11.1%	10.5%
Water Oasis Current Market Price	898	898	898	898	898
Water Oasis Current Market Price ÷ Real Profit	5.5x	4.9x	4.4x	3.9x	3.6x

All numbers in the table are estimates. The table assumes: (1) clinics are bought at 6 times yearly profits, and (2) profits from the existing business and bought clinics grow 5% yearly.

Even after spending HK\$300 million on clinics, and paying out 80% of profits as dividends, Water Oasis would still have lots of cash left:

HKD Millions	2026E	2027E	2028E	2029E	2030E
Start of period cash	917	1005	967	933	903
Cash from real profits	163	183	205	228	252
Cash used for buying clinics	-	-75	-75	-75	-75
Cash used for dividends	-75	-147	-164	-182	-201
Estimated Dividend Yield	8.4%	16.3%	18.3%	20.3%	22.4%
End of period cash	1005	967	933	903	879

All figures are estimates. For 2026, we assume a 6.0-cent final dividend. From 2027 onwards, we assume dividends equal 80% of estimated real profit. We calculate dividend yields using 31st July's HK\$898 million market value.

Water Oasis has a market value of HK\$900 million. It earns about HK\$160 million a year, owns HK\$170 million of investment properties. And holds about **HK\$1 billion in cash.**

Buying existing clinics turns cash into more profit. Dividends give the cash directly to shareholders.

Any mix of the two, is worth much more than today's market price.

CareCloud

We think CareCloud is undervalued. But we found companies that are more undervalued. So we sold most of our CareCloud shares to buy them.

CareCloud's value mainly depends on how many customers it keeps, and how AI will impact their profits.

How much revenue did CareCloud keep from last year?

CareCloud bought 4 companies in 2025, after Q1. Including their revenue in Q1 2025, Q1 2026 revenue was 15% lower.

The drop came mainly from weaker IT consulting. But this does not matter. Because almost all profit comes from TEBS*:

*TEBS: Technology-Enabled Business Solutions

In \$ thousands	Q1 2025	Q1 2026	Change
Reported TEBS	17,705	23,032	+30.1%
Less: 2025 acquisitions	-	-6,320	-
TEBS excluding acquisitions	17,705	16,712	-5.6%

Management told us Medsphere made up 25% of Q1 TEBS revenue, or about \$5.75 million. We estimate the other 3 acquisitions added the remaining \$0.57 million.

The -5.6% is not a perfect measure of churn, but it is the best measure we have.

Reported TEBS revenue rose 30%. But without acquisitions it fell 5.6%. This is within CareCloud's normal 4% to 6% 'structural churn'. Meaning: doctors retiring, practices closing, or hospitals taking over practices and moving billing elsewhere.

How will AI impact CareCloud's future profit?

AI can hurt companies like CareCloud in 3 ways:

1. **Higher customer-acquisition costs:** CareCloud has to spend more money to get new customers.
2. **Lower prices or customer losses:** competitors force CareCloud to cut prices or lose customers.
3. **Lower client revenue:** CareCloud's customers collect less money, so CareCloud earns less too.

1. Higher customer-acquisition costs

CareCloud gets most customers by buying small medical billing companies.

There are few buyers. And many struggling sellers. Their managers failed to fix them before AI. Now they face less cash and more problems.

CareCloud can buy them cheaply. Then it can use its lower-cost team, software and AI to cut costs and sell more services.

2. Lower prices or customer losses

Good RCM providers already collect most valid claims within 30-60 days.

AI has more room to cut costs than improve collections.

Switching RCM providers is slow and risky. It takes 2-4 months and can disrupt collections. That alone can cancel out months of savings from a cheaper provider.

Most medical providers also lack staff, rooms and clinic space. Switching systems takes staff away from patients. Using that time to treat more patients or add capacity is more valuable.

So most hospitals stay with the same RCM provider for decades. They only switch only when poor service starts hurting collections.

If AI makes switching cheaper, customers can seek lower prices.

To keep the same total profit at lower prices, competitors must gain more customers. That requires higher sales, marketing and support costs.

That favors low-cost providers. CareCloud spends \$65 for every \$100 of TEBS revenue. Versus \$80 for competitors like TruBridge.

At an \$80 price, CareCloud still earns \$15. While TruBridge earns nothing.

So CareCloud can benefit either way. If switching stays costly, most customers stay. If switching gets cheaper, CareCloud's lower costs let it cut prices and still earn more than competitors.

3. Lower client revenue

CareCloud earns a share of the money healthcare providers collect.

In the short term, AI could make care cheaper. Providers could make more profit on each visit. And treat more patients with the same staff.

For AI to sharply reduce CareCloud's profits over time, all of the following needs to happen:

- New medicine, AI and robots become safe, reliable, legally approved, cheap, and widely used.
- Payers reduce payment rates, or care shifts toward cheaper services.
- Patient volume fails to make up for the lower payments.

It is possible. But it requires major advances in technology. And big changes in regulation, incentives, pricing, demand, and supply.

All of that would take many years.

How We Find Ideas

Knowledge is information stored in a physical system that can cause changes to other systems, without losing the ability to cause them again.

Edge is knowledge we have, that market prices do not reflect.

We built [Argus](#) to use our edge faster, and in more situations.

There are 100,000 stocks in the world. We avoid 85,000 because of their sizes, countries or industries. Leaving 15,000 we can invest in.

Each month, Argus reads public information on all 15,000. It screens them using the knowledge we translated to it. **And flags the top 1%.**

We research the best few. And buy the most undervalued ones.

The longer a time horizon we measure, the more a system's value depends on how fast it improves. Public information may be finite. But the **knowledge we can create is not.**

And as always...

Yours sincerely,

Gabriel Sammut

If you're a high net worth individual or family office, and want to partner with us, [get in touch.](#)

Footnotes

All returns are in USD. Gross returns exclude fees. Net returns deduct a 1% annual management fee and a 25% performance fee (charged only on gains above a 6% annual hurdle). The S&P 500 benchmark assumes reinvested dividends and no fees, sourced [\[here\]](#).

2022 performance is from inception (February 2) through December 31. All subsequent years are full calendar years.

Returns from 2022-2025 represent separately managed accounts, and have been independently verified by The Spaulding Group. The code used to calculate returns is open-source, and available [\[here\]](#).

Returns from 2026 onwards represent Bilbel Capital Fund LP and will be audited annually by Cherry Bekaert LLP.

All the information shared here is accurate to the best of our knowledge. If something turns out to be inaccurate or incorrect, we'll make corrections and leave a note about the update.

Disclaimer: Bilbel Capital LLC provides investment management services to Bilbel Capital Fund LP, a private investment fund. Bilbel Capital LLC relies on the "foreign private adviser" exemption under Section 202(a)(30) of the U.S. Investment Advisers Act.

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If you have any questions, feel free to reach out to info@bilbelcapital.com
