Carta a los inversores GV Vadevalor Europe

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vadevalor

ÍNDICE

Los casos de inversión son explicaciones sobre las actividades de la empresa, el equipo directivo y el precio actual con valoraciones y estimaciones que podrían no ser correctas. La rentabilidad no está garantizada y en ningún momento se trata de recomendaciones de compra o de venta.

Queremos hacer cosas sencillas de forma repetida en el tiempo. Seleccionamos excelentes profesionales que pensamos que merecen gestionar más patrimonio y vemos sus fondos crecer en rentabilidad y en tamaño

Carta a los inversores del GV Vadevalor Europe. 2 de noviembre de 2022

Estimado inversor a largo plazo:

Muchas gracias por tu confianza. Desde el inicio de nuestro asesoramiento la renta variable europea ha caído con fuerza lo que ha dado lugar a comenzar con un -15%. Nuestra rentabilidad anual estimada* para los inversores en un escenario base ha subido del 10,5% anual que estimamos al inicio hasta más del 13% anual en la actualidad.

Como ya adelantamos, en periodos tan cortos de tiempo se pueden ver caídas (aunque los inversores pacientes verán más subidas que caídas también en periodos cortos de tiempo[1]) y cuanto más se alargue el plazo temporal más convencimiento tenemos de que los resultados logrados estarán en línea con nuestras estimaciones.

Stocks for the Long Run

Once the holding period is lengthened, the picture changes. With each passing year, more weight is given to the business fundamentals and less to the whims of the market:

Figure 2: S&P 500 Total Return Attribution, Rolling Returns

Source: S&P Dow Jones Indices, Seilern as at 31 December 2019

(1) Desde 1999, el índice MSCI Europe, que refleja la evolución del conjunto del mercado de empresas en Europa, ha subido 168 meses y ha bajado 117 meses. Desde enero hasta septiembre de 2022, un año extraordinariamente malo para las bolsas, el índice europeo ha bajado en 7 de los 9 meses del año.

Recordemos que no ha habido ni un solo periodo de más de 7 años con caídas en la bolsa europea en su conjunto y que las valoraciones actuales de las empresas europeas se encuentran a niveles muy atractivos (PER de 10,5 veces para el 2023 frente a una media histórica de cerca de 15 veces). Simplemente volver a la media tras estos últimos meses de extrema negatividad supondría una subida cercana al 30%.

(*) La rentabilidad no está garantizada y en ningún momento se trata de recomendación de compra o de venta

El gráfico elaborado por JP Morgan a partir de un estudio de la Universidad de Michigan para el que se entrevistan a cientos de personas sobre sus condiciones económicas y el estado de la economía, muestra la rentabilidad de la bolsa americana 12 meses después de haber realizado la encuesta. Se puede ver como los momentos de mayor negatividad han venido seguidos de las mayores rentabilidades durante los próximos meses, en julio de este año se marcó un máximo de negatividad histórica.

Destacamos la importancia de mantener el foco en el largo plazo y no sacar conclusiones por los resultados en plazos cortos de tiempo.

Quien hubiera invertido en uno de los vehículos de inversión más conocidos del mercado (cuyo nombre indicaremos a continuación) del 1 de enero al 31 de diciembre de 1999, hubiera visto una caída del 27%. Del 1 de enero del 2008 al 31 de diciembre del 2008 una caída del 32% e invirtiendo del 1 de enero del 2015 al 31 de diciembre del 2015 la caída hubiera sido del 11%.

Se trata de Berkshire Hathaway, vehículo de inversión de Warren Buffett y Charlie Munger, quienes han logrado rentabilidades superiores al 15% anual durante décadas. Veamos ahora la rentabilidad a largo plazo, desde el año 1999.

Nuestras valoraciones de las principales inversiones de los gestores seleccionados apenas han variado desde que comenzamos el asesoramiento y con el paso del tiempo el valor real de los activos es superior. Las empresas pagan dividendos (que se quedan en el fondo) y con el paso del tiempo incrementan sus beneficios por acción. El valor real del conjunto de empresas en las que invierten los gestores seleccionados es mayor que cuando comenzamos el asesoramiento y el precio es un 15% inferior. Sin duda esto es simplemente un desajuste temporal, una ineficiencia del mercado que será ajustada con el paso del tiempo, cuanto más tiempo se alargue el desajuste mayor será la subida después.

Esperamos que los ejemplos de casos de inversión que mostramos en esta carta ayuden a entender a los inversores por qué tenemos plena confianza en lograr muy buenos resultados a largo plazo (también para los que invirtieron desde el inicio).

Mantenemos dos secciones, una primera en la que tenemos en mente a personas sin muchos conocimientos financieros y en la segunda a inversores con mayores conocimientos técnicos, en la que esta vez añadimos también anexos con ideas de inversión:

Caso de **Cenovus** explicado por Marcos Hernández (SIA), **Aptitude Software** por Rosemary Banyard (Downing Fund Managers), **Washtec** por Stefan Dudacy (Allianz Global), **Grenergy** por Gonzalo Sánchez (Gesconsult), **Stora Enso** por Ole Dahl (Arctic Asset Management), **SII** por Juan Uguet (Augustus Capital) y **Global Dominion** (inversión realizada por Lierde y de Gesconsult) y **Atrys Health** (inversión realizada por Gesconsult) por Alexandra Pascu y Javier Ribas Meneu (Vadevalor)

Sección 1.

¿Qué puedo esperar al invertir en GV Vadevalor Europe?

Profesionalidad

Profesionalidad por parte del asesor y de la gestora Gesconsult, una de las principales gestoras de fondos independientes en España que cuenta con más de 30 años de experiencia en la gestión. Agradecemos su confianza desde Vadevalor. El dinero de familiares y gente muy cercana está invertido en el vehículo de inversión por lo que nuestro nivel de alineación de intereses con los partícipes es máximo.

Buenos resultados

Desde Vadevalor esperamos muy buenos resultados a largo plazo, al menos un 13% anual según nuestras estimaciones, lo que supondría que el valor liquidativo del fondo multiplique por más de 2 veces desde 8,4€ en menos de 6 años.

Recordamos que vemos momentos de caídas como oportunidades para incrementar las inversiones. Como ejemplo sencillo de entender, si un activo que genera 10 en beneficios todos los años y lo paga todo en dividendos tiene un precio de 100 y cae a 70 pero sigue manteniendo su capacidad de generar beneficios a largo plazo, nos parece buen momento para comprar más de ese activo. Si una empresa que crece mucho se espera que gane 20 en beneficios en 5 años tiene un precio de 100 y baja a 70, también nos parecerá muy buen momento para comprar más de ese activo.

Todos los gestores del fondo que asesoramos han compartido una idea de inversión, que se pueden ver al final de esta carta. Siempre queremos ver empresas en 3 categorías: 1) buenas empresas por

las que se paga muy poco por los beneficios actuales, 2) empresas que cotizan a múltiplos medios del mercado pero que son claramente mejores que la media y 3) empresas que cotizan a múltiplos más altos, pero crecen de forma exponencial y el precio pagado es bajo con respecto a los beneficios que estimamos que generen en 5 o 10 años.

Vamos a mostrar algunos ejemplos de ideas de gestores, además de compartir los anexos, casos reales que se entienden de forma tan sencilla como el ejemplo de arriba.

Global Dominion

Global Dominion es una empresa de ingeniería, construcción y proveedor de servicios fundada en 1999 cuya propuesta de valor es la maximización de la eficiencia y productividad de sus clientes, con la tecnología como elemento transformador. Es la principal inversión de Lierde SICAV y también está entre las 10 principales inversiones del fondo Gesconsult Renta Variable. Hemos añadido nuestro resumen ejecutivo al final de esta carta, pero para cualquier persona puede resultar sorprendente que se paguen tan solo 10 veces los beneficios de una empresa cuyo crecimiento orgánico anual medio de los ingresos durante los últimos 5 años ha sido cercano al 10%, manteniendo márgenes a buenos niveles (incluso en el contexto económico actual) y muy buenas perspectivas de crecimiento. Opera en un mercado fragmentado en el que hemos visto que los líderes tienen mayores márgenes que sus competidores al ser más eficientes y son capaces de hacer compras a precios atractivos. Hay valor oculto su división de energías renovables que seguro que en algún momento el mercado reconocerá. Tras la entrada en el capital de su división de renovables por parte de Incus Capital con un 23,4% a finales del 2021, Global Dominion cambia su modelo pasando de tener una participación del 35% de una entidad, BAS, que siempre desinvertía en sus proyectos para financiar otras oportunidades a tener los activos en propiedad. De esa forma, la compañía abarca toda la cadena de valor (desarrollo, construcción y explotación de proyectos *build & hold* con potenciales nuevas operaciones de liquidez y creación de valor), con una cartera de proyectos de aproximadamente 2GW para 2021-2025.

Tanto el director como el presidente de la compañía tienen cada uno más del 5% de la compañía y los principales accionistas son la familia Riberas, también propietarios de CIE Automotive y Gestamp, dos de las mejores empresas que hay en España y claros ejemplos de buena gestión a nivel global. Cuando comenzamos el asesoramiento, Global Dominion cotizaba a 4,4€ (PER 2022 =13,5 veces). Las acciones han caído hasta 3,4€ (PER 2022 = 10,5 veces). En la última publicación de resultados la empresa ha mostrado un crecimiento de ventas a nivel orgánico incluso superior al esperado (+7,5%) y un incremento de beneficio operativo cercano al 15%. Según nuestras estimaciones, si se mantiene el precio actual el PER bajará hasta las 6 veces en 2026 por el incremento de los beneficios. El precio terminará subiendo en línea con el incremento de beneficios de la empresa (incluso más por la elevada infravaloración actual). Este ejemplo muestra a la perfección lo que está pasando en la bolsa este año. Si solo nos fijásemos en el precio, veríamos simplemente una caída del 22% desde el comienzo de nuestro asesoramiento del fondo. Al comprender el negocio, sabemos que el valor real de la compañía es superior al de hace un año y que es solo cuestión de tiempo que el mercado lo reconozca.

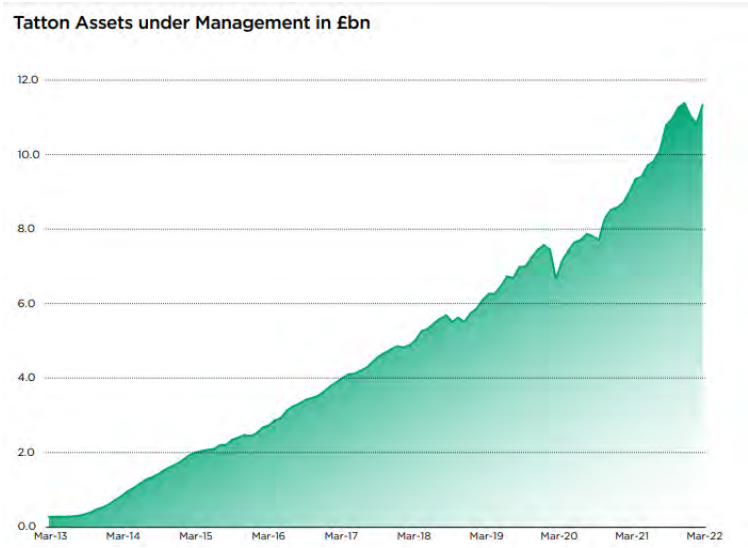
ING

Se trata de una de las principales inversiones del fondo Long Term Investment Fund Classic. Es uno de los bancos que mejor ha prestado de toda Europa, con una ratio de préstamos no cobrados bajísimo (cerca del 0,2% sobre sus préstamos de media desde el 2007). Tiene una buena posición de solvencia por lo que puede distribuir los beneficios a los accionistas y el precio sobre los beneficios es de tan solo 7 veces. Era de 10,5 veces cuando comenzamos el asesoramiento. La caída desde entonces es del 30%, que desde nuestro punto de vista tan solo refleja el sentimiento negativo del mercado en general.

Tatton Asset Management

Empresa que se puede ver entre las principales inversiones del fondo VT Downing Unique Opportunities. El precio ha caído desde 5,45 libras hasta 3,48 libras, un 35%. Cotiza a un EV/EBIT cercano a 12 veces y PER de 15 veces. Nos parece una valoración realmente baja para una compañía que ha mostrado el crecimiento en activos que se puede ver en el gráfico que compartimos y tiene perspectivas de seguir creciendo mucho a medio y largo plazo. Los ingresos han pasado de 12 millones de libras en 2017 a 29 en 2022 y el EBIT de 4,5 millones en 2017 a 14 en 2022.

Nos parece que tiene un valor enorme por su relación con asesores financieros en Inglaterra. Ofrece servicios de asesoramiento de carteras, tiene una división de servicios de hipotecas y también ofrece servicios de consultoría y cumplimiento normativo a asesores financieros. No nos extrañaría ver muchas gestoras interesándose por adquirir la compañía por un precio muy superior al actual del mercado. El CEO y fundador Paul Hogarth posee el 16% de las acciones.



Son unos pocos ejemplos que muestran muy bien lo que está ocurriendo en las compañías de los gestores que hemos seleccionado. Los precios han caído pero la capacidad de generar caja de las compañías a perpetuidad sigue al menos tan sólida como a principios de año.

Es cierto que en la última publicación de resultados trimestrales algunas compañías han mostrado una pequeña contracción en márgenes, pero el mercado está valorando que esa contracción de márgenes va a ser a perpetuidad y no a corto plazo, como pensamos nosotros. Recordemos que la renta variable sí protege a los inversores ante subidas de inflación ya que las empresas suben los precios de sus productos y servicios cuando hay subidas de costes.

Fondos seleccionados

- Long Term Investment Fund Classic
- VT Downing Unique Opportunities Fund
- Allianz Global Small and Micro
- Gesconsult Renta Variable
- Arctic Nordic Equities
- Lierde

Resultados históricos de los gestores

(Resultados de un inversor que hubiese invertido en los fondos gestionados por los gestores seleccionados, tal y como detallamos en nuestra ficha mensual, y en el GV Vadevalor Europe a partir del 19 de enero de 2022).

Hemos seleccionado fondos de inversión de renta variable gestionados por profesionales con una larga trayectoria, con el objetivo de lograr la apreciación del capital a largo plazo. Damos prioridad a fondos de menos de 100 millones de € ya que tienen mayor flexibilidad para invertir en pequeñas y medianas compañías (no solo invertimos en fondos de pequeñas y medianas compañías, pero nos gusta que tengan flexibilidad), cuyos gestores invierten en empresas de sus países (pensamos que la cercanía les da una ventaja) y han demostrado su capacidad por aportar valor. Resumido en tres palabras: conocimiento, cercanía y consistencia.

Analizamos las primeras posiciones de cada fondo y hemos logrado buenos acuerdos de colaboración con gestoras por lo que el TER total (ratio de los gastos totales) es muy inferior a la gran mayoría de fondos de fondos del mercado europeo. Nuestro objetivo con respecto al vehículo de inversión asesorado es el de lograr buenos resultados para los partícipes, en línea con nuestras estimaciones. Por otra parte, siempre hemos querido que nuestras actividades tengan un impacto positivo para la sociedad, más allá de facilitar a la gente que tome mejores decisiones financieras. Al menos el 20% de los beneficios los destinaremos a causas benéficas.

Sección 2.

Detalles sobre el proceso de selección y las inversiones

En primer lugar, vemos qué profesionales han logrado resultados extraordinarios a largo plazo y luego nos fijamos en qué empresas invierten para asegurarnos de que estamos cómodos con la rentabilidad esperada y que son fondos descorrelacionados entré sí y el mercado. Analizamos las primeras posiciones de cada fondo para tener una rentabilidad esperada en un escenario base, lo que nos permite poner el foco en los activos subyacentes y en nuestras valoraciones de esos activos frente a las del mercado y también nos permite tener una buena percepción sobre en qué partes del mercado vemos mejores oportunidades. No olvidemos que trabajamos con gestores centrados en empresas de diferentes países, sectores y estrategias y cada gestor intenta ser el mejor en su área de especialización.

Explicación sobre los fondos seleccionados

Todos los gestores de los fondos que hemos seleccionado han logrado excelentes resultados a largo plazo.

Hemos decidido incorporar el fondo Long Term Investment Fund Classic y que sea nuestra principal inversión ya que es muy diferente a todos los demás que hemos seleccionado, al contar con un equipo que acumula décadas de experiencia en el análisis de materias primas. Aproximadamente el 30% del fondo está invertido en empresas de materias primas, mayoritariamente empresas del sector de petróleo. Pensamos que la transición energética va a durar mucho más de lo que los precios de los activos reflejan y que el pesimismo instalado en el sector los últimos años, han reducido las inversiones a niveles insostenibles. Una demanda mayor que la descontada por el mercado, ha llevado a muchas empresas a cotizar a valoraciones de derribo. Nos gusta su evolución en la política de inversión, con Marcos Hernández como director de inversiones, que consideramos que ha reducido significativamente el riesgo del fondo, con el mismo objetivo de rentabilidad que el nuestro.

Seleccionamos el fondo Downing Unique Opportunities ya que nos llamó la atención la profesionalidad de Rosemary Banyard y el riguroso criterio que utiliza para las inversiones. Al analizar las principales empresas en las que invierte, nos dimos cuenta de que prácticamente la totalidad de sus inversiones tienen las mismas características: empresa con un accionista de referencia (normalmente el equipo fundador), con muy altos márgenes y retornos sobre el capital empleado, crecimiento exponencial durante los últimos años y capacidad de continuar creciendo mucho a medio y largo plazo. Rosemary Banyard realiza descuentos de flujos de caja aplicando un coste del capital del 10% y un crecimiento muy conservador en el valor terminal.

Seleccionamos el fondo Allianz Global German Small and Micro puesto que nos gustó ver que la mayoría de las empresas en las que invierte también tienen un accionista de referencia y es una cartera muy diversificada con valores de muchísimo crecimiento y otros de menos crecimiento, siempre a valoraciones atractivas. Aproximadamente el 30% de sus inversiones son en empresas en el sector de tecnologías de información/software. Stefan considera que el mercado de pequeñas compañías alemanas está muy poco cubierto y que siempre será capaz de encontrar valor.

En el caso de Lierde, nos gusta que tienen una estrategia de inversión muy clara, buscando empresas de calidad, que tengan retornos sobre el capital empleado elevados, con poca deuda, bien gestionadas, familiares o de grupos industriales en los que haya un accionista de control y que estén enfocadas en crear valor para el accionista. Tienen la cartera estructurada en torno a cuatro bloques, sectores que van a crecer por encima de la media: IT y digitalización, salud, consumo global y empresas industriales de nicho (cuyos productos suponen una parte pequeña del coste total del producto final).

Elegimos el fondo Gesconsult Renta Variable ya que es uno de los fondos con mejores resultados a largo plazo invirtiendo en empresas españolas y portuguesas. El mercado español ha recibido continuas salidas de capital durante los últimos años, presionando a la baja las cotizaciones de las empresas. Un fondo como el Gesconsult Renta Variable nos parece una excelente forma de tener exposición al mercado español, ya que está centrado en el tipo de compañías que menor riesgo tienen, al dar preferencia a empresas globales (tan solo cerca del 30% de los ingresos de las empresas del fondo son en España) de muy alta calidad.

Con respecto al fondo Arctic Nordic Equities, nos gusta su enfoque en empresas de muchísima calidad, que seguro continuarán mostrando buenos niveles de crecimientos de beneficios de aquí a

5 o 10 años, y su baja rotación de cartera. Sorprenden los buenísimos resultados de los valores nórdicos a muy largo plazo por la fortaleza de su economía y por la buena gestión en general de las compañías.

Esta fue nuestra primera recomendación a Gesconsult:

- Long Term Investment Fund Classic: 18,2225%
- VT Downing Unique Opportunities: 17,2375%
- Allianz German Small and Micro: 15,76%
- Gesconsult Renta Variable: 15,76%
- Arctic Nordic Equities: 15,76%
- Lierde: 15,76%
- Liquidez: 1,5%

La cual hemos decidido mantener hasta la fecha, hasta que se realice la inversión en el fondo IDAM Small Europe. Decidir mantener los mismos porcentajes es una decisión activa, que supone reducir un poco la exposición en el fondo que más ha subido (en este caso el Long Term Investment Fund Classic que está en positivo este año) para aumentarla un poco en otros que han caído, cuyo potencial de revalorización ha incrementado.

Cuando comenzamos el asesoramiento, vimos que la rentabilidad anual esperada en un escenario base era mayor en el caso del fondo Long Term Investment Fund Classic (superior al 15% anual por aquel entonces con estimaciones muy conservadoras) por lo que decidimos que fuera el fondo con mayor exposición. En todos los demás, nuestra rentabilidad anual esperada en un escenario base era cercana al 10%.

Tras los bruscos movimientos del mercado, la rentabilidad anual esperada de los demás fondos ha subido, hasta niveles cercanos al 14% para todos ellos que han caído de forma similar y la del fondo Long Term Investment Fund Classic se ha mantenido cercana al 15%. Por lo tanto, no esperamos grandes cambios en los porcentajes a muy corto plazo.

Estamos permanentemente atentos a los cambios en los precios de los activos. Como ejemplo, si los precios de las empresas en las que invierte SIA siguen subiendo y no hay cambios en la cartera, la rentabilidad anual esperada bajará para ese fondo. Si alguno de los demás cae fuertemente, sin cambios en los fundamentales, o sube, pero el valor de las empresas incrementa más rápido de lo que lo hace el precio, la rentabilidad esperada subirá. Si ese fondo pasa a ser aquel en el que mayor rentabilidad esperada vemos, pasará a ser el fondo en el que mayor exposición tenemos, con un porcentaje cercano al 20%.

Nuevo fondo a incorporar

IDAM Small Euro

Hemos decidido seleccionar el fondo IDAM Small Euro ya que nos parece un caso único en el mercado y pensamos que el fondo nos dará alegrías. Nos parece muy buen momento para incrementar la exposición a pequeñas compañías, ahora que el que el índice MSCI Europe Small lleva una caída cercana al 30% desde inicio de año.

IDAM pertenece al mismo grupo que la casa de análisis más fuerte de Francia, cuyos clientes son algunas de las principales gestoras francesas. Louis Albert, director general, socio y gestor de IDAM logró rentabilidades cercanas al 20% anual en la entidad anterior en la que trabajó como gestor, antes de incorporarse a IDAM. Le acompaña en la gestión Jérôme Chassin, quien pensamos que se va a posicionar como uno de los mejores gestores en el sector en su categoría.

Conclusión:

Estar centrados en los negocios es lo que nos permite mantener la calma en periodos de negatividad. Como dice Warren Buffett: “Los partidos los ganan los jugadores que se centran en el terreno de juego, no aquellos que tienen los ojos pegados al marcador”.

Somos optimistas con respecto a los resultados futuros de las empresas en los que invierten los gestores que hemos seleccionado y vemos las caídas como oportunidades de comprar buenos activos a menores precios.

Esperamos que esta información resulte de interés y agradecemos tu confianza.

Atentamente,

Javier Ribas Meneu.

CENOVUS ENERGY

SIA – Long Term Investment Fund Classic

Executive summary

One of the companies with the greatest weight in our two funds, Classic and Natural Resources, is Cenovus, the Canadian oil company and leader in tar sands. It has a very considerable size, with an invested capital of 34,000 million dollars. The company seems to us an excellent investment for the following reasons.

Quality Assets

Cenovus has top quality assets and reserves (TIER1), mainly in Canada, with more than 50 years of proven and probable reserves 2P (8,400 million barrels), a production capacity of 800,000 b/d divided into 600,000 b/d of bituminous sands, 125,000 b/d of conventional, oil and 70,000 b/d offshore. The proven reserves amount to 6,100 million barrels and are around 5% of the reserves of Canada. Although officially, the life of 2P reserves is 30 years, it is greater than 50, which contrasts with most oil companies which have about 10-15 years of 2P reserves.

Cenovus assets are also showing a low decline, less than 10%, compared to, for example, 30% for shale oil, which is important in terms of maintenance costs and investments. Cenovus also has strong know-how in on-site technology (injection of steam and product chemicals) for the oil to flow, with a very positive impact on costs and the environment.

Finally, Cenovus assets can be developed in modular phases, which allows flexibility, standardisation of processes and improvements in efficiency. Low costs and limited investments

Cenovus has worked hard to contain its costs. The latest figures place its operating costs a a very competitive level, around $11-12 per barrel. Asset quality and know-how developed over the years translate into an average SOR (Steam Oil Ratio) of less than 3x, a leader in the sector.

In addition, due to the company's massive reserves, it does not need to invest in exploration and development as much as the more traditional oil companies, so Cenovus' investments are lower. They don't need to find oil because they already have it. Therefore, the investments are smaller, modular, and somewhat front-loaded. In most oil companies, the cost of finding and developing a project is around $10-15 per barrel, a very important investment that Cenovus reduces substantially.

Finally, it should be noted that Cenovus has less than $2 per barrel of corporate costs, which compares favourably with the industry and demonstrates that the group's management team is very focused on profitability and costs.

Integration and distribution as added value

Since Alex Pourbaix took over Cenovus, the company has made an enormous effort to solidify the business via vertical integration with significant investments in upgrading and refining (Husky and Toledo). Currently, Cenovus has fulfilled its goal of becoming an integrated oil company with 660,000 b/d of upgrade and refining capacity.

The company has also made a significant effort in distribution, with refineries, pipelines and warehouses in various markets, including rail transportation from Canada to the US. Thanks to this, Cenovus can access the east and west coast of Canada and the USA. Thus if situations of excess supply or bottlenecks occur in some part of the supply chain, it has enough flexibility to change to a different market and even absorb spreads.

Hope for the best and prepare for the worst

We really like how Cenovus and its management team prepare the company for difficult times. Starting with a plan based on low oil prices ($45 WTI), almost at the cash cost of the cost curve, continuing with an ambitious cost-saving and optimisation plan executed in 2020-22, and the entire management team focused on strengthening the business and its profitability in place to look for growth adventures.

Oil is a long cycle cyclical business, where it is easy to make mistakes due to the immense amount of capital used in any project. The barriers to entry are not enormous, although it is difficult to create scale. However, exit barriers do, which means that supply adjustments when there is overcapacity take years and even decades. In long cycles, it is key to have quality assets, low costs, integration and a healthy balance, or the next crisis can take the company down. Cenovus has been working hard in this direction and is a much more resilient company than it was a few years ago. Cenovus has made some acquisitions in the lower part of the cycle (mainly stakes in Cristina Lake and Foster Creek, the Husky oil company, and part of the Toledo refinery, among others), which denotes a management team very focused on generating value given that the usual things that oil companies buy when things are going well and not the opposite, which is when value is generated.

A good balance sheet and capital allocation

As we have explained, the balance sheet of an oil company must be healthy to face the cyclic nature of the sector, which on the supply side, is long-term. Cenovus has made a significant effort in recent years. The net debt forecast for 2022E is around 4,000 million dollars against an expected EBITDA of 22,000 million dollars, with an average maturity for the very comfortable and well-structured debt over time.

Cenovus, in line with the sector, has been evolving towards an allocation of resources that is much more aligned with the shareholder and has agreed to pay 100% of the FCF when the net debt falls to normalised levels, using both dividends and share buybacks. Financial discipline and allocation of capital that takes shareholders very much into account are two issues that, once again, show the quality of the company's management team.

Why is Cenovus a good business?

- Good assets and long-term reserves in a sector where exploration is increasingly difficult and expensive

- Good management. Focused on profitability and aligned with shareholders.

- Culture: focus on costs/returns and maximising shareholder value is evident in their financial goals.

- Resilience: the company can withstand crises thanks to its low-cost integrated model and its solid balance.

- Growth potential: With higher oil prices, CVE can easily accelerate the growth to mid-single-digit levels.

- Good margins and returns: With $80 oil, the company generates an ROIC of 10-12% without needing oil exploration.

- Solid balance sheet: A necessity in this industry due to its cyclic nature and strong falls.

- Clear plan for sustainability and zero emissions by 2050.

Why is Cenovus a good investment?

- The CVE share remains well below the $35-40C levels of 2011-2013. Quote at $23-24C.

- The share trades at 1.2x Firm Value over Invested Capital, below the historical median of 1.4x. Historical range (0.5x-2.5x).

- Free cash flow of $6.5 billion in 2022E vs a capitalisation of $42 billion market. 15% Free Cash Flow Yield

- IRR of 14-15% and IV of 35-40 CAD per share

- In our scenario of oil prices until the end of the decade, CVE should be an excellent investment.

GROUPE SII

Augustus Capital – Lierde

Executive summary

Societe Pour L¨Informatique Industrielle (SII) is a French engineering consulting group created in 1979. It aims to support companies in the integration of new technologies, processes, and methods to develop new products and services and to develop their information systems. Business is split approximately 50/50 between outsourced R&D and IT Services. The company went public in 1999. The current Market Cap is EUR 930 million.

Value proposal, main business areas and competitive advantages

The company operates in 10 business areas: Aerospace & Defence (21%), Banking & Insurance (20%), Telecoms & Media (14%), Energy (7%), Industry (7%), Services (6%), Healthcare (6%), Retail (5%), Automotive (4%) and Transportation (4%). It is present in 17 countries worldwide (France, Poland, Spain, Germany, Romania, Chile, Belgium, Canada, UK, Morocco, Czech Republic, Netherlands, Colombia, Sweden, Switzerland, India, and Argentina. France represents around 45% of the revenues and internationally 55%, with Poland representing more than half of the international turnover.

Its top ten customers are ABB, Airbus, BNP Paribas, Bouygues, Credit Mutuel, HSBC, La Poste, Orange, Roche, and Thales. No one represents more than 10% of revenues, although the five largest represent 30% of sales.

The group has 10,300 employees, with 4,700 in France. Mainly engineers. Recruitment in 2021/22 was 4,500, with an activity rate of 90.4%.

The strategy combines organic growth with acquisitions in France and internationally. The first international acquisition was in Poland in 2006. In 2019 SII unveiled a new strategic plan to enter the big league. It expanded the Executive Committee to seven members and split the group into territorial departments. In France, three regions were created, and three clusters internationally depending on the country's maturity and the customer's position.

Growth drivers: Increase in Outsourcing R&D and IT investments (Cloud, 5G, IoT, Bid Data, Cybersecurity, and IT Infrastructure. More and more interconnection of both activities. This is the essence of the tie-up between Cap Gemini and Altran or Adecco and AKKA Technologies. So SII was a pioneer in a sense.

Competitive Advantages: SII has more than 40 years of existence, is well diversified by sector and country, its decentralised organisation combining proximity with the branches and coordination among departments. Well-recognised HR department (Great Place to Work Award). Excellent management with skin in the game. Embedded interconnection between R&D (Engineering) and IT Services.

The management team

Bernard Huvé, an engineer, founded and managed the company until 2007. He and his family are majority shareholders, with 45% of the company. In 2007, to support growth, Bernard Huvé formed a new management team with Eric Matteucci as the new CEO.

Mr Matteucci is currently the executive chairman of the management board. He owns 8.5%% of the company. His stake was a gift from Mr Huvé, who had recently retired and with no family members working in the company. He is close to retirement age, so the sale of the company could be a possibility. Patrice Demay is the CEO for France, and Jean-Paul Chevee for international. Competitors have a great opinion about SII both in France and internationally. Several companies we follow would like to acquire or merge with SII.

Financial data and valuation

SII is a growth stock. Since 1998 (25 years) CAGR of sales, EBIT and net profit is 16%. We believe the company will continue growing at least in the 7%-10% range during the next five years. Despite the pressure from the cost side, demand will remain high owing to innovations and engineering services. Our scenario does not include any acquisitions. However, note that the group will continue being aggressive in accelerating its transformation in certain geographic regions and targeted areas of expertise (particularly in the cloud, data, and cyber defence).

SII has a historical discipline in terms of cash generation. SII has always been careful to control its capital employed, resulting in an excellent level of value (Avg RoCE including Goodwill: 2012-2022 +25.7%). Our calculation of shareholder value creation (Book Value growth + dividend yield) is 22% for 2022, 26% for 2023, and 20% for 2024.

Currently, the company is at EV/revenues multiple of 0.8x (EBIT Margin 10%), EV/EBIT 8x with RocE of 45%, PE of 13.7x with 18% of M.Cap in cash and 6% FCFY. DCF upside (WACC 8.7%, G 2%) is 25% with a Target Price of 60 Eur vs the current price of 48 EUR.

FOUNTAINE PAJOT

IDAM Small Euro

Executive summary

Founded in 1976 by Jean-François Fountaine and Yves Pajot, two nautical racers, Fountaine Pajot is one of the global leaders in the design, manufacture, and marketing of cruising catamarans. Over time, the group has diversified its range and today offers sailing catamarans, motor yacht catamarans, and monohulls after its equity investment in the capital of Dufour Yacht in 2018.

Value proposal, main business areas and competitive advantages

Fountaine Pajot is evolving in the very large boat market and offers three distinct boats:

1) Sailing Catamarans
2) Motor Catamarans
3) Sailing Monohulls

The company does not disclose the split by division.

The Sailing Catamarans, which is the historical division, today offers eight sizes of cruising catamarans from 12m in length to 24m in length, that is to say, a range from a healthy family cruising catamaran type to an ultra-luxe type. The price ranges from €380K for the 12m to €5M for the biggest.

Today, the Motor Catamarans division offer four sizes, from 11m to 20m, with prices from €400K to €3M.

The benefit of catamarans is the space people can enjoy compared to the standard monohull.

In contrast to the global boat market, the catamaran market is not a replacement market. It is still growing inside the boat market. Whereas the global boat market is valued at more than 30 billion USD, the catamaran market is still 1.5 billion in 2022. It is also growing at a faster pace than the boat market.

The last division comes from the Dufour Yacht acquisition and is the Sailing Monohull. It offers nine types of sailing monohull. The range goes from 10m at €160K to 19m at €1.4M.

In 2017, the Dufour Yacht division was €63M when the catamarans division was €79M, so we would guess that this division in the group would be around 30/35% today because of the higher growth in catamarans.

Management team focused on creating value

The largest shareholder of the company is Cie du Catamaran, with 53% of the capital, which is headed by Jean-François Pajot. The family is still the main shareholder today, and Claire Fountaine (Jean-François Fountaine's wife) is the president of the board of directors. The holding of Cie du Catamaran has been open to non-family shareholders since 2015 with the entry of Nexstage (French private equity), which now has been a long-term shareholder, like Arkéa Capital Partenaires (Venture Capital), since 2020 and Unexo (Private Equity) since 2021. The holding has not been diluted since 2015.

Financial data and valuation

From 2016 to 2021, Fountaine Pajot grew sales at a CAGR of 23%, with an average organic growth of 13.6% during this period, including the COVID-19 year, which saw sales drop by 16.50%. The EBIT margin has gone from 12.2% in 2016 to 11.6% in 2021 because of the acquisition of Dufour Yacht, the sailing monohull having less margin. Since Covid, the demand for cruising boats, in general, has increased to a level not seen before as people were looking for more freedom and were willing to accelerate some "life projects". The catamaran market continues to outperform the boat market. Today the back orders continue to grow. The main priority is to hire and increase their production capacity. Concerning inflation, the company is marginally impacted because of the high demand and is in the process of increasing its prices for further production.

Today, Fountaine Pajot's valuation is really cheap, with a PER of 8.2 for the earnings of August 23 and 2.6 EV/ EBIT because of the high level of cash (more than 80M for a market capitalisation of 160M). This level of enterprise value has not been seen since 2016 when the company was doing three times less revenue and results and anticipated a huge slowdown in demand. Today the demand is here and coming from high net-worth individuals and lessors. The company has prioritised the individual and has a high level of orders from lessors. Considering the quality of the clients willing to buy a boat, a significant slowdown in demand in this category could only happen if a huge worldwide recession came in the next semester. However, if such a scenario were to happen, we think that today's level of valuation is not far from the right level of valuation in this kind of context.

GRENERGY RENOVABLES

Gesconsult Renta Variable

Executive summary

Founded in 2007 by David Ruiz de Andrés, Grenergy is a vertically integrated solar PV and onshore wind player with capacity to provide value through the entire value chain. Grenergy applies a Build-to-Own (B2O) and Build-to-Sell strategy (B2S).

Value proposal, main business areas, and competitive advantages

Grenergy has two business segments:

- The B2S strategy allows them to get funds for growth, although they raise capital when they find a good opportunity (for instance, in 2022 to invest in Germany).

- The B2O area is the main source of value creation for the company

As they are an integrated player with 15 years of expertise, they are able to capture value from the whole renewable process (permitting, development, construction and operation). This results in an attractive IRR (about 9% ex-leverage).

The management has demonstrated great adaptation capacity within the sector, looking for the best opportunities and adapting their objectives. They are also specialists in looking for good locations. Hence, the load factors they currently have are high (>24% in Spain, 35% Chile, and even a 70% in Patagonia).

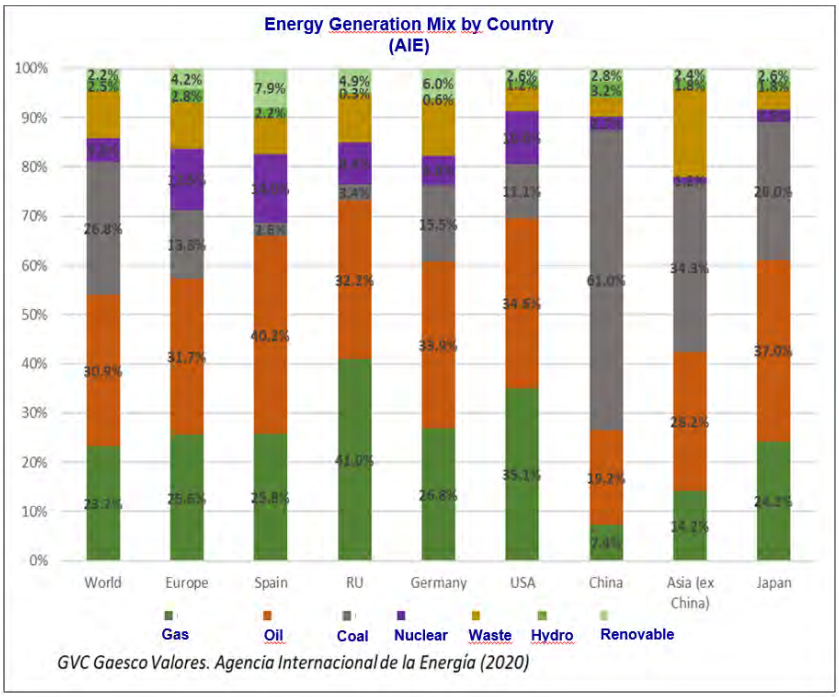
Company installation objectives are 3.5GW in 2024, with 46% LatAm and 54% Europe.

	Installed Capacity (MW)
2020	198
2021	541
2022e	1,400
2023e	2,400
2024e	3,500

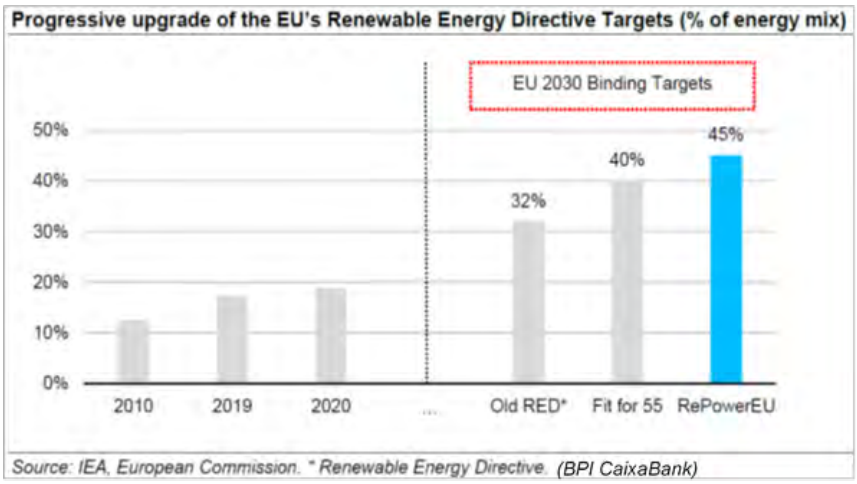
Grenergy in a scenario of uncertainty

The current global macro environment is going to worsen. There is a synchronised lower global growth, and the gas situation makes Europe's position quite delicate. However, clean energy is experiencing the opposite situation. The energy crunch will probably last; dependence on Russian gas has no easy solution after years of inaction. The fastest solution, albeit insufficient, is to increase green investments. The >70% decrease in solar FV LCOE (Levelised Cost of Energy) since 2010 makes this technology the most competitive source of electricity in many places where the sun is

intense enough. With regard to wind, IRENA (the International Renewable Energy Agency) said in 2017 that onshore wind LCOE was the lowest among all generation technologies. So, both sources are cheap and relatively easy to install. However, the main obstacles are bureaucracy and permits by public administrations; something Europe cannot afford right now.



The energy mix in Europe demonstrates that the countries need to accelerate green investments, and this is exactly what the directive targets are aimed at:



The macro situation also affects CAPEX, leaving an uncertain scenario with a sharp increase in polysilicon prices and transport. However, we think we are now on a trajectory of supply chain normalisation. Moreover, the polysilicon and panel manufacturing capacities are increasing strongly.

Also, the consolidation of certain commodities at a high level, for example, oil or gas, is highly beneficial for this industry as it puts technologies with a lower cost of electricity production in an advantageous situation.

That means the recent CAPEX inflation is being offset by higher PPA/prices, protecting IRRs.

Management team focused on creating value

The company was founded in 2007 as a Spanish solar PV developer and, during the last 15 years, has become an IPP (Independent Power Producer) with a presence in several countries, such as Spain, Chile, México, and Peru and with a multi-technology profile (solar PV, onshore wind, and batteries). The company is controlled by David Ruiz de Andrés (53% of shares), its founder and CEO and is well positioned to take advantage of the current environment with growth potential backed in its pipeline.

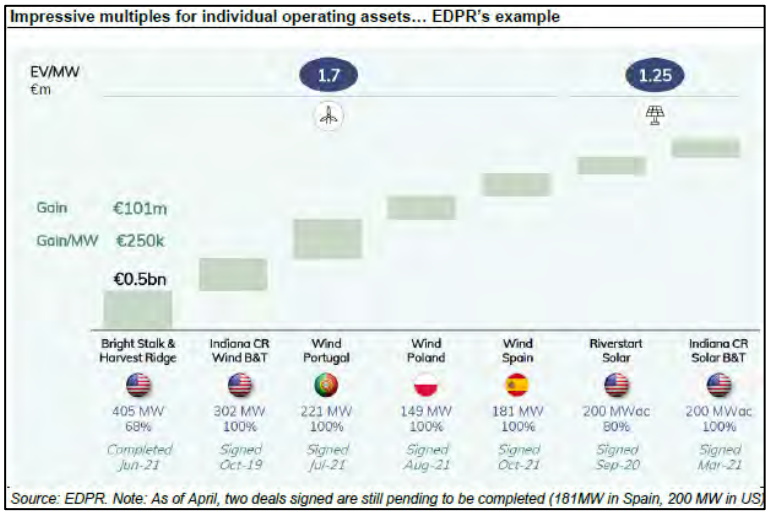
Financial data and valuation

The company has shown a remarkable capacity to read the renewable environment, entering new markets and technologies at the right time and meeting planned targets without making significant cutbacks. In 2022 Grenergy has identified around 5GW of new opportunities, proof of the company's ability to find future growth.

Grenergy´s plan of installation is 3.5GW in 2024, which represents an impressive growth from the 198MW in 2020 (or 541MW in 2021). As they fulfil the plan, margins will increase from 19% to 53% in 2025 EBITDA Margin thanks to the dilution of the B2S area.

With this objective, the company would be able to reach an EBITDA of around €184 million in 2024 (67% CAGR) and €230M in 2025, assuming no other incorporations. That would lead to a P/E ratio of 11x and EV/EBITDA of 9x in 2025 (the year with the 2024 capacity fully operative).

If we have a look at market transactions, we can see the demand for renewable energy assets is very high, and prices paid in energy transactions are well above Grenergy's implicit value per MW in the market (current implicit EV for 2024 capacity would be €0.7 million/MW with around 18% of the pipeline being wind, no battery plans or B2S business included). For instance, recently, Greenvolt sold 150MW in assets, being the implicit price 1.6mn/MW, so 2.2 in wind and 0.9 in solar FV. Another example comes from one of the last EDPR asset rotations:



STORA ENSO

Arctic Nordic Equities

Executive summary

Stora Enso was established in 1988 through the merger of Finnish Enso and Swedish Stora Kopparbergs, the latter having roots dating back to the thirteenth century. Stora is a leading Nordic Forest products company, where focus over the last 15 years has changed from printing papers to structurally growing segments such as consumer packaging. Revenues have been largely stagnant since 2010, as dwindling paper revenues have been replaced by packaging revenues. By the end of 2023, we expect publication paper to account for a negligible part of revenues.

Value proposal – A resilient renewable materials company with optionality

Stora Enso is an asset-rich company with a flexible and partly integrated setup. Upstream, the company has 1.4 million hectares of forestland in Sweden and Finland. It also has indirect ownership corresponding to more than seven TWh annually of hydroelectric and nuclear power. The captive supply of fibre and energy improves the resilience of the company. Most of Stora's packaging operations rely on fresh fibre ("virgin"), a segment with limited competition. Through increasing R&D and innovation efforts, Stora aims to provide better product and service offerings and to offer completely new products based on wood chemistry.

From a market perspective, decarbonisation and sustainability provide a tailwind for Stora's existing main businesses, while several nascent biochemicals and biomaterials initiatives present optionality for the longer term. Near-term, Stora's integrated business model shelters the company from increasing and volatile raw material prices and supply chain disruptions. Stora Enso's profitability has been on an upward trend for a decade. However, the business is far from immune to economic cycles, although the company appears well-positioned for the future as a more resilient company with several potential avenues for profitable growth.

Business areas

Packaging Materials and Packaging Solutions (combined 44% of external 2021 revenues) is providing virgin-based (fresh fibre) specialised consumer packaging, such as liquid packaging board, a segment where Stora is the global leader. It is also a segment characterised by relatively low demand and price volatility. In Europe, paper-based packaging is gaining market share from plastics. Over the last decade, Stora has also built up a successful business within recycled-based packaging solutions, focussed mainly on Poland. The company has several potential growth projects in the Nordics and Continental Europe. Through innovation, Stora aims to improve profitability and expand the market by offering customers better and more sustainable products. For example, its proprietary microfibrillar cellulose is applied as a barrier material in packaging for liquids and as a reinforcing agent in the board (enabling lighter, stronger boards).

Biomaterials (15% of revenues) produces long- and short-fibre pulp as standard commodity pulp varieties. However, Stora also offers more specialised qualities such as dissolving pulp and fluff

pulp. Its mills in the Nordics and Southern America enjoy a favourable cost position. However, Stora Enso is unlikely to pursue further growth in its capital-intensive pulp business. Instead, we are likely to see its net pulp exposure decline as its packaging operations grow. Additionally, Stora Biomaterials have several promising innovation projects in the pipeline heading for commercial operations. The exploitation of lignin, an underutilised part of wood (usually around 30% of a tree), is a key denominator for most of these projects. Lignode, nearing a commercial ramp-up, is a lignin-based anode material which may replace or complement (non-renewable) graphite in batteries. This is already a multibillion-USD market with strong growth potential. Furthermore, Stora is already marketing bio-based binders (adhesives). However, the ambition is to grow this to a substantial and profitable business through further research, development, and marketing activities.

Wood Products (17% of sales) was originally a traditional sawmill business. An extensive restructuring, mostly 10-15 years ago, paved the way for improving profitability. Furthermore, over the last decade, Stora Wood Products has taken the global number one position within cross-laminated-timber (CLT). This segment offers tailor-made structural elements for medium- and high-rise buildings, a segment with a structural tailwind from sustainability and regulatory changes. CLT is the core of Stora's Building Solutions subsegment. By using digital tools, one can deliver prefabricated modules which enable increased productivity, lower construction costs and a significantly lower carbon footprint for the customer. We also see optionality in the company's initiatives within "special infrastructure", where wind turbine towers made from laminated wood are currently being tested.

Paper (16% of revenues). Paper revenues have gradually reduced as paper mills have been converted to packaging operations or divested. By the end of next year, four of Stora's five remaining paper mills will likely have been divested. That leaves Langerbrugge in Belgium for a potential packaging conversion. Paper has proved to be a decent cash flow generator during its wind-down phase. However, its sales decline of more than EUR 3 bn. over the last ten years has also meant that overall corporate revenues have stagnated. Furthermore, exiting paper will likely reduce earnings volatility as this has been a fundamentally challenging industry where Stora has not been the most cost competitive.

Forest (8% of external revenues, but including internal deliveries, the segment amounted to 23% of net sales in 2021). Stora is one of the largest private forest owners in the World. During 2018-19, Stora Enso increased and restructured its forest holdings in Sweden, paving the way for more efficient forestry operations. Stora's forest holdings provide fibre access and flexibility for its industrial operations, while income streams such as wind power generation are likely to add value in the medium term. It also provides optionality to the investment case as forest owners may capitalise on forests' carbon sink characteristics in the future.

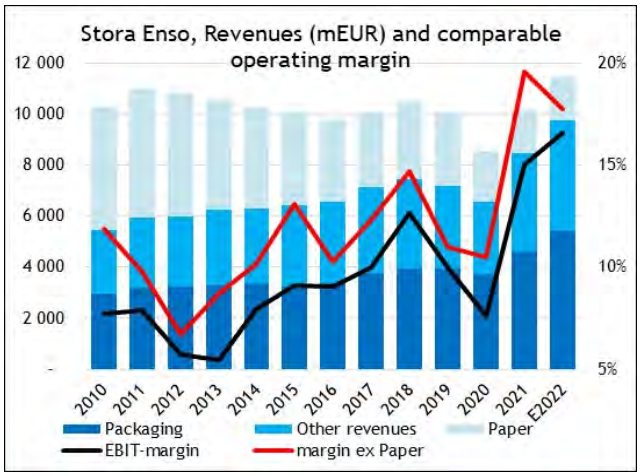
Management and shareholders

CEO Annica Bresky became CEO three years ago after having been head of the Consumer Board division for two years. Before that, she had extensive industry experience with Stora Enso, Swedish Billerud, and Holmen. Under her leadership, the transformation from paper to packaging has accelerated, and the emphasis on growth from biomaterials and building systems has increased.

The board has extensive industrial and financial competence, mainly from Nordic and European industrial companies such as SAAB, Epiroc, SKF, Danone, and Nestlé. The board is chaired by Mr Antti Mäkinen, CEO of Solidium, who replaced Jorma Eloranta in 2021. FAM (Wallenberg foundations) and Solidium (Finnish state) are the two largest shareholders. Stora Enso is not considered a likely M&A target.

Financials and valuation

At the current share price of EUR 14, the market cap and enterprise value amount to 11.0 and 13.2 bn, respectively. The resulting EV/underlying EBIT multiple is ca. 7. Considering that the market value of the company's forestland is around EUR 9 bn., the implicit valuation of Stora's industrial operations is ca. 3x times operational EBIT for the current year. Hence, even though earnings are likely to be subject to a cyclical slowdown into 2023, there should be ample margin of safety when applying normalised margins.



Downing

Aptitude Software PLC

Investment Case Study

Investment Case Summary

Aptitude Software is a software and services business focussed on enabling corporates to account for complex or high volume transactions accurately and efficiently. Historically, Aptitude delivered solutions to help corporate clients to process and present their data to meet particular complex accounting standards such as IFRS 15 (revenue recognition), IFRS 16 (leasing), and IFRS 17 (insurance). Increasingly, Aptitude is now focussed on the broader areas of subscription management and the automation of the entire finance function.

Value Proposal, Main Business Areas and Competitive Advantages

Aptitude discloses two business segments:

1. Software (62.2% of 2021 revenues)
2. Services (37.8% of 2021 revenues)

The acquisition of MPP Global in October 2021 lifted the proportion of revenues from software to 68% in the first half of 2022.

The services revenue is largely derived from the implementation of Aptitude's software with clients, and is likely to reduce further over time as partners (e.g. KPMG) carry out more of the implementations, and as the move to cloud-based software reduces implementation times generally.

Aptitude now focusses on two main market opportunities: **subscription management** and **automation of finance departments**. However, it retains the ongoing subscribers for its specific accounting standards compliance capabilities.

The **subscription** economy continues to expand as recurring revenues are more highly valued than one-off transactions, and many more products and services are sold through subscription. Businesses require new systems to manage these subscriptions and to address the accounting complexities of revenue recognition inherent in a subscription model. Aptitude now offers an end-to-end solution including identity management, automated billing, payment processing, churn management, renewals, upgrades, volume discount calculations, optimisation, and all of this feeds through into accurate revenue recognition at high transaction volumes. Customers include The Telegraph, Channel4, NBC and the Daily Mail in media, and NCP (National Car Parks) and Specsavers in other consumer applications. Aptitude has the advantages of a **long history (over 10 years) in processing high volumes of data to meet complex accounting standards** such as IFRS15, 16 and 17. It has a **lot of highly referenceable customers** including half of the top 30 global telcos who have used its IFRS 15 revenue recognition software, most notably T-Mobile which has been a client since 2014. The customer base is sticky, with the **main moat being high switching costs**. Competitors include Zuora (listed in the US). The addressable market in publishing and sport alone is estimated at $1.5bn and growing at 15% per annum.

There is a similar set of drivers for growth in the **finance automation** area. Finance directors need to automate the processing of numerous individual transactions from a variety of data sources into the general ledger or consolidation system. Aptitude has a long-established rules-based accounting engine which can sit between the incoming data and the consolidation system (it can even be integrated into SAP or Oracle ERP systems), and which can handle high volumes of data accurately to enable real-time analysis and audit. Again it has a **highly referenceable set of customers** which have previously used its specialist modules, such as ING, RBC, HSBC (banks), and MetLife and Aviva (insurance). Competitors

include the in-house solutions of SAP and Oracle, but **Aptitude trades on focus and superior functionality**. **The principal moat is again high switching costs**. The primary market for this product is Tier1-Tier 3 financial institutions, the TAM is estimated at £1bn and the market is estimated to be growing at 10-15% per annum.

Management Team

The CEO, Jeremy Suddards, has been at the company for 4.5 years and CEO for 2.5 years, with previous experience at Hewlett Packard. The FD and Deputy CEO Philip Wood has been with the company since 2007. The Chairman Ivan Martin has a lot of executive and non-executive experience in the technology and financial services sectors.

Financial Data and Valuation

Aptitude in its present form dates to 2018 when another division was divested. In 2021, it announced annual recurring revenues (ARR) of £41.8m compared with £23.5m in 2018, with underlying organic growth in ARR of 10% per annum (plus an acquisition). Total Contract Value (TCV) is £87.2m with significant contracted revenue visible for three years. Net revenue retention in both 2020 and 2021 was 102%. Aptitude announced in March 2022 that it would spend an extra £4.5m over two years to introduce a cloud native version of its finance automation software, called Fynapse. Aptitude does not capitalise any R&D expenditure, but conservatively expenses it as incurred. Therefore operating margins, which have been in the mid-teens, will take a short term hit. R&D spend in 2021 was already £10.6m, but despite this ROCE has been over 15%.

At a recent (6 September 2022) market capitalisation of c. £235m (at 410p per share), if one were to value the services revenue at 1 times annualised revenues of say £23m, and to adjust for net cash of c. £10m, the recurring revenues of £49m are valued at about 4x their run rate, which is below recent similar metrics in the US market, albeit the latter have been declining from very elevated levels. A DCF based valuation assuming a 10% discount rate and growth rates starting below the recent 10% level and fading, gives a good margin for safety in this investment.

Rosemary Banyard
Manager of the VT Downing Unique Opportunities Fund
September 2022

Allianz Global Investors

Allianz German Small and Micro Cap

Investment Case Example

Washtec

World's leading manufacturer of car wash equipment

Company Description: Washtec is the world leading provider of cleaning technologies for cars, trucks and buses. Washtec produces and services a complete range of wash systems with conventional brushes, cloth washers and high-pressure water jets for cars, commercial vehicles, making it a preferred supplier to global petrol companies, car manufacturers and small and medium-sized enterprises around the world. WashTec offers comprehensive service packages and digital smart service solutions over the entire life cycle of the products - these include maintenance, chemical supply, equipment take-back, as well as services for arranging financing or operator management of equipment. The main revenue drivers of the company are the product areas of machinery, service and chemicals. A consistent focus on innovative, high-quality products, strict customer orientation and worldwide service are key factors for the company's success. Washtec generates some 80% of its turnover in Europe. This market is highly consolidated with only four competitors, while the US market is highly fragmented.

The company's attractiveness stems from its robust business segment, the share of recurring sales of over 60% with an above-average gross margin of approx. 40-45%, as well as strong FCF generation (FCF margin 2021-23e 9.4%) and an above-average dividend yield of 5%. The company is not only able to defend its position as number 1 in the European premium market but also to invest in new regions such as the US or in new innovative products. For 2022, a high sales growth of 10% - 12% is forecast due to the high order backlog, which corresponds to a currency-adjusted growth of 8% - 10%.[1] While growth of 4%-5% is expected for the core market of Europe, Washtec believes that sales in North America and Asia/Pacific could grow in the double-digit range this year. By contrast, the company is less optimistic about returns. Due to the challenges in the procurement markets with regard to supply chain issues, material price developments and the delayed effect of price increases, the company is adjusting the forecast given at the beginning of the year of a double-digit EBIT return and assumes an EBIT return of 8% - 9.[1]

Launched in 2020, the "SmartCare" rollover machine series for the premium segment has now been rolled out worldwide. This machine series is based on a modular concept and, according to management, should help to implement a homogeneous design for a complete global product range in the coming years. With the broad implementation now achieved, an increase in production efficiency should be achieved, which could have a positive impact on sales and earnings levels in the medium term.

Valuation and Outlook: The company is characterised by a fundamentally attractive dividend yield and an equally appealing price-earnings ratio. In addition, it has an excellent market position as the world's leading provider of innovative solutions for vehicle washing. The issue of supply chains are supposed to remain relevant in 2022, due to the unpredictable influences of the geopolitical crisis in Ukraine and the severe corona lockdowns in China. Both pose the risk of supply bottlenecks for steel production components, which could lead to price increases. This has already led to some volatility in the share, which is now trading at an attractive level compared to peers and its own historical valuation levels. In the light of developments regarding a possible natural gas embargo, Washtec is preparing by already switching to oil. Thus, the direct impact should remain manageable as the company is mainly active in assembly, which means that production is less energy intensive. The bigger risk probably lies with the company's suppliers.

Allianz Global Investors

Allianz German Small and Micro Cap

Investment Case Example

Sources:
[1]Washtec, July 2022

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Source: Atrys Health

|EXECUTIVE SUMMARY

Atrys Health is a biomedical company whose main area of expertise is oncology. Provides medical diagnosis and treatment services. Atrys Health is a global leader in telemedicine services in Spanish.

VALUE PROPOSAL, MAIN BUSINESS AREAS AND COMPETITIVE ADVANTAGES

Atrys Health has 5 business segments:

1. Telemedicine (17% of 2021's revenue),
2. Oncology/ radiotherapy (13%),
3. Laboratory/ pathology (8%)
4. Big data/ data services (2%),
5. ASPY excluding Conversia (45.9%), and Conversia (13.5%).

Since 2021, the company breaks down its results considering three business lines: precision medicine (includes segments 1-4 above), preventive medicine (ASPY) and compliance services (Conversia).

In the telemedicine segment, teleradiology is its main area of activity. Teleradiology means obtaining medical images and transmitting them over electronic networks so that they can be interpreted for diagnostic purposes by professionals based in another location. Atrys has a team of medical specialists in neurological, musculoskeletal, paediatric, chest, abdomen and breast radiology diagnostics. Atrys Health has developed its own technological platform, used by more than 100 hospitals and health groups in Spain and Latin America. The company overcomes the barriers of physical location between doctors and patients since its specialists can offer their services in the cloud.

Its work in complementary time zones allows them to reduce waiting times and delivery of results. As an example, doctors from Colombia who work during the day may offer their services throughout the night in Spain due to the time difference.

The global teleradiology market is expected to grow at double-digit rates, as the implementation of teleradiology services in diagnostic centers or hospitals reduces their costs by 15-25%. Atrys Health is the world's largest company in the Spanish-speaking teleradiology market and penetration rates are extremely low. The UK has the highest penetration rate in the world at just 7.4% in 2018 according to Signify Research. It is a market that tends to have a leading company with a very high market share, as has been seen in countries such as the United States or the United Kingdom.

Regarding medical treatments in the oncology/ radiotherapy division, Atrys Health is a pioneer in the use of single-dose radiotherapy for the treatment of cancer, which reduces the number of radiotherapy sessions to treat a tumor from 30-40 sessions to between 1 and 6 sessions. Single-dose radiation therapy has been proven to be as effective as the traditional approach but with lower radiation doses over many days.

Atrys Health highlights the importance of its relationship with the Champalimaud Foundation Center for the Unknown in Lisbon, Portugal, indicating that it is currently at least a couple of years ahead of its main competitors with respect to effective implementation of single dose treatments.

At the end of 2021, Atrys Health reached a strategic alliance with the Foundation, which not only gives it access to the Champalimaud Foundation's protocols, doctors and training, but also means a flow of patients for Atrys Health as the Champalimaud Foundation currently has excess patient demand. Atrys Health has Dr. Carlos Greco, who has developed the innovative technique that allows the use of single-dose radiation as a non-invasive and viable alternative to surgery.

The company also operates different cancer centers, with its own methodology. Atrys Health intends to open two new centers a year in the European market, continuing its successful international expansion

(it already has a presence in countries such as Portugal, Spain and Switzerland). Investors should expect high returns on their investments to offset their research and expertise efforts.

Atrys Health owns laboratories in Spain, where it performs diagnostic services, mainly cancer. Barriers to entry are high as the company benefits from relationships it has developed with hospitals and health groups over many years, and laboratories have to be located close to those health groups that require their services.

Atrys Health also has the largest database in the health sector in Spain and develops research and development projects, benefiting its specialists and clients. Finally, through the acquisition of ASPY, the company operates more than 200 occupational risk prevention centers and has gone from being a provider of medical services to being an entity capable of referring more than a million clients to hospitals once pathologies have been detected. This strengthens Atrys Health's ability to establish strategic alliances with hospital groups. The ASPY acquisition also allowed Atrys Health to add Conversia, a small business-focused regulatory compliance company that was acquired by ASPY in 2020, to its business. Atrys Health has always seen great value in Conversia. According to Atrys Health, Conversia is a business that is not capital intensive and has great growth potential and the ability to multiply its EBITDA several times over the next few years.

Atrys Health has the advantage that it can offer hospitals and health groups different and complementary services to improve their care. Cross-selling is very common. For example, they win a contract to offer teleradiology services, and then they may ask them for more information about their pathology services, their data services, or even to launch a new cancer center.

It also has tailwinds as the demand for its diagnostic and treatment services increases as the population ages. Efforts to reduce costs, the current shortage of specialists and the search for advantages in health services give rise to the growth of telemedicine.

MANAGEMENT TEAM FOCUSED ON CREATING VALUE

Atrys Health not only has a management team with great technical and sector knowledge, but also integrates the directors of the companies it buys. In addition, the financial director is a member of the board of one of the most prestigious independent managers in Spain, an entity that follows the principles of value investing. Atrys Health applies the same investment philosophy to its acquisitions. Atrys Health seeks to purchase companies at mid-market multiples or below, which allows it to guarantee an IRR of 15% before synergies. The ideal purchase for the entity is an opportunity in which they see clear cost synergies, improvements in EBITDA, additional income and cross-selling opportunities.

The business is not very capital intensive and most of the expansion CAPEX goes to new facilities and equipment in the radiotherapy division and the return on investment is very high.

FINANCIAL DATA AND VALUATION

Atrys Health has been able to show an average organic growth of more than 20% from 2016 to 2021, including a year as difficult as 2020 due to COVID-19. During the same period, the pro forma adjusted EBITDA per share has multiplied by almost 6 times. Assuming levels of future organic growth that the company considers reasonable and, in our view, being conservative with our estimates of future margins and terminal value, the expected IRR for investors in a base case is double digits.

CAGR – Reported revenue (7 years)	86.6%
CAGR – Proforma revenue (7 years)	96.6%
Avg organic growth (6 years)	20.4%
Proforma adjusted EBITDA margin 2021	22.0%

	2021
Net debt/ adjusted proforma EBITDA	3.41x

Source: Global Dominion

Technology and efficiency for a transforming world

DOMINION

EXECUTIVE SUMMARY

Global Dominion Access was established in 1999 as an engineering, construction, and multi-technology service supplier group whose value proposition is the maximisation of the efficiency and productivity of its clients' business processes by applying technology as a transformational element and offering end-to-end solutions.

VALUE PROPOSAL, MAIN BUSINESS AREAS AND COMPETITIVE ADVANTAGES

Global Dominion has 3 business segments:

1. B2B 360 Projects (29% of 2021's adjusted revenue),
2. B2B Services (53%),
3. B2C (18%)

In the B2B 360 Projects segment, a new production process or new infrastructure is created, in which the subsequent design, implementation and maintenance is carried out. Projects are usually one-off orders with high margins. These are comprehensive projects (typically multi-year) with a margin profile of more than 15%.

B2B Services refer to the framework contracts for operation and maintenance outsourcing and process improvement projects. These contracts typically involve recurring revenues with adjusted margins that should come close to a contribution margin of approximately 12%.

The three core sectors of focus for Global Dominion in its B2B businesses are a) T&T – Technology, Telecommunications & Infrastructure), b) Industry and c) Energy.

Global Dominion started its operations over two decades ago, delivering projects and maintenance services in the telecommunications sector. It was a sector characterised by fierce competition and the firm had to be very focused on having a cost-efficient structure to emerge as one of the leading companies in its field. Even in geographical regions where they do not have a clear labour cost advantage, they usually have higher margins than competitors due to their internal processes and efficient management of resources. Global Dominion has transferred this success formula to other sectors and/or industries other than telco.

There are clear tailwinds for their activities as the digitalisation of companies, sustainability, and the maximisation of the efficiency of processes in different sectors have become increasingly necessary. This fact combined with their high client retention rate, diversification, and geographic capillarity, allows the Group to address a solid customer base and accompany them everywhere the Group is needed.

Source: Global Dominion

Source: Global Dominion

The traditional business of projects and services is not capital intensive. Its organic growth will depend on the ability of the management team to find global opportunities that can allow the firm to maintain the

targeted margins. The Group has historically grown by seeking the most attractive opportunities worldwide hence the heterogeneous deployment of its multi-disciplinary capacity. For instance, the telecommunication sector in Germany, the industrial one in India or environmental services all over the world are examples of good current opportunities. Organic growth is expected to stay at high levels. Global Dominion has a significant deployment of resources in several countries, although it is still not active in all their activities. Therefore, operational leverage is to be expected.

In this sector, we have seen how the largest companies in local markets have been able to grow successfully through acquisitions whilst showing higher margins than competitors. We believe that Global Dominion can successfully expand internationally in a market characterised by high levels of fragmentation and a very limited number of global entities. A global player such as Global Dominion often has the edge over local competitors in terms of labour security, solvency, or capacity to support their clients in their international expansion.

During all these years, the company has been able to secure and develop a solid M&A activity with a purchase EBITDA ratio between 5 – 6x (with the aim of becoming 3x EBITDA in year three). The Group consolidates and seeks value in these acquisitions by offering a joint project in the medium/long term, which demands a reciprocal commitment between Dominion and the acquired company's management team. Dominion strongly stresses the importance of people as the cornerstone of their acquisitions' success.

Its renewable energy segment is a source of hidden value for the company. BAS (35% owned by Global Dominion) is the promoter of the projects. Until last year, BAS always disinvested in their projects to finance other opportunities. Now, with the renewable segment 100% owned by Dominion, they encompass and carry through the whole value chain (development, construction, and operation of build & hold projects with potential new liquidity and value creation deals). Global Dominion, together with BAS, have a pipeline of approximately 2GW for 2021-2025.

Global Dominion was looking for a minority partner to strengthen its activity, and hence Incus Capital entered the shareholding of the subsidiary Dominion Energy with 23.4% at the end of 2021, through a capital increase of €75M (€50M brought by Incus Capital and €25M by Global Dominion). The deal enabled Global Dominion to crystallise the real value of its renewable business (post-money valuation of €213.75M). We believe that the firm will manage its Renewable segment as an independent entity in the future. As Global Dominion has publicly disclosed, they are potentially considering its independent listing in the future.

Lastly, the B2C segment comprises all end-customer-oriented activities: the marketing of electricity and gas utilities, telecommunications services, insurance, and other services in the household, as well as the renting of mobile phones. In this segment, the Group's value proposition is to serve as a multiple service provider offering all personal and household services in a single, all-encompassing platform with a network of over 400 retail outlets. All activities currently performed in this sector are carried out in Spain. Additionally, in 2022, the company announced a partnership with Repsol that will not only improve the energy offer of the nearly 100,000 customers of Alterna, the energy vertical of its B2C segment, but will also leverage their Phone House's omnichannel network to attract new customers and hence to give an additional boost to the growth of this energy vertical.

As Global Dominion offered services to entities such as Orange, Yoigo and other telecommunication operators to manage points of sale, they gained knowledge of the operation of stores, logistics, and customer acquisition strategies. Global Dominion acquired Phone House with the idea of offering different services for customers and benefitting from cross-selling opportunities. Selling phones is a business with very low margins. However, they are a "magnet" to attract customers and sell different services. Global Dominion has decided to start focusing on each segment separately and over time it plans to benefit from cross-selling opportunities.

MANAGEMENT TEAM FOCUSED ON CREATING VALUE

The largest shareholder of Global Dominion is Acek Desarrollo y Gestión Industrial S.L, owned by the Riberas family. Jon and Francisco Riberas are amongst the best-known businessmen in Spain and also the largest shareholders of multinational firms CIE Automotive and Gestamp. Global Dominion has a strong management team with a long-term view. Anton Pradera, Chairman and Mikel Barandiaran, CEO, are founding members and own over 10% of the shares (over 5% each).

Anton Pradera is the Chairman of Global Dominion and CIE. Global Dominion and CCIE Automotive were conceived and set up as parallel independent projects, but they shared investors. Global Dominion was negatively impacted by the crisis of 2008 and some of its investors needed liquidity, and wanted to disinvest.

CIE Automotive bought the shares from those investors and became the parent company of Global Dominion. Therefore, from 2011 to 2018, Global Dominion was consolidated into CIE Automotive, but the management teams stayed independent. The similarity in management cultures of CIE Automotive and Global Dominion clearly exists as initial investors were the same for both companies, and they have a very clear industrial culture with a long-term view and a lot of financial discipline. Those features are common in both firms. In fact, the management teams at CIE Automotive and Global Dominion share the same acquisition policy and a long history of shareholder-friendly capital allocation decisions.

FINANCIAL DATA AND VALUATION

From 2016 to 2021, Global Dominion grew sales at a CAGR of over 16%, demonstrating its capacity for securing a growing order book and designing accurate operating strategies to properly address customers' needs. Average organic growth during the period was 9.6%. The company has shown increasing revenues since 2015 (the last available financial statement published) except for 2020, as Covid-19 affected each of the different segments in very different ways, both in terms of intensity and amount over time. In 2021, Dominion exceeded pre-Covid levels in terms of activity and profitability by the end of the year. The EBITA margin increased from 5.83% in 2016 to 6.56% in 2021.

At the current price of €3.32 (market cap: €615M), the P/E ratio (2022) ≈ 10x and the EV/EBIT multiple (2022) ≈ 8x. We believe that those multiples do not reflect the ability to generate cash in perpetuity of a company able to grow organically at high levels, to take opportunities to acquire global firms at attractive prices, and maintain a good capital allocation policy. In addition, it is very likely that its hidden value in the renewable energy segment will be unlocked in the near term. Currently the company has a 77% conversion rate of EBITA into Operating FCF and Net Cash Position (EUR65.5).

CAGR – Revenue (5 years)	+16%
Average Organic Growth (5 years)	9.6%
Contribution Margin / Adjusted turnover 2021	13.3%

ESG POLICY

Dominion has an active sustainability strategy approved by the Board of Directors where medium/long-term improvement commitments are established, among which Dominion highlights:

- Carbon footprint to decrease by -30% in 2025 compared to 2020.
- Reaching 100% of suppliers certified in sustainability by 2025.
- Corporate governance: extending training on corruption and code of ethics to 100% of directors in 2025
- Accident rate: occupational risk prevention campaigns and accident rate reduction targets.