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Translation for convenience only

The Bargain hunter

In the year 2022, which faced challenging stock markets, Hans Peter Schupp has generated gains for his investors: ranked no. 1 amongst all investment funds with a focus on European equities. In a meeting with BÖRSE ONLINE the portfolio manager presents his strategy and portfolio stocks.

The small fund boutique Fidecum has a unique position with its stringent value approach. In 2022 this clearly paid off. And also in the long term the fund outperforms its benchmark.

An interview with fund manager Hans-Peter Schupp.

BÖRSE ONLINE: Mr. Schupp, your fund Contrarian Value Euroland is in the ranking of the weak stock market year 2022 with positive performance in front. What are the reasons?

Hans Peter Schupp: We pay strict attention to the valuation. Our value approach was facing more challenges during times when central banks were keeping interest rates artificially low via bond purchasing programs. Low interest rates and high liquidity favor companies with strong growth, because future earnings, no matter how far off, are unlikely to lose time value. The world, however, has changed again in the past year. With higher interest rates the following applies: Better one bird in the hand than two in the bush.

At the moment, interest rate easing is once again being discussed again. Is the value party over again?

I believe that the inflationary spiral has only just begun to turn to turn and it will continue to turn further. Minimum wages have gone up, that's having an impact on costs. Add demographics to that: labor is becoming scarcer and more expensive. Now that companies have felt the problems in their supply chains, there is a trend to localize production again. This leads to intermediate products becoming more expensive in favor of a more stable supply. In general, we try to stay out of economic interpretations. We look for very cheap stocks and wait for their valuations to normalize.

Are there any key figures of the fund?

We are quite concentrated in so-called deep-value companies. In total, 22 out of 32 stocks have a price-to-book ratio of lower than 1, and 19 stocks have a price-earnings ratio (P/E) ratio of below 10. The average P/E ratio is 6.6 . The price-to-book ratio of the portfolio is 0.5 compared to the Euro Stoxx 300, whose value is 1.6.

There are many approaches to value investing. What do you pay attention to?

In our approach, we assume that we own the company outright. As the owner you have two options: Either the break-up value is much higher than the stock market price, or the value of the future discounted earnings is not reflected in the market capitalization. In our fund, you often find a combination of both.

Give us an example, please.

The Italian telecommunications company **Tim** is somehow on the verge of being broken up. The group is heavily indebted, but has the networks, in which mainly investment companies but also the state are interested. The value of the networks is estimated at 20 to 25 billion euros. If they were sold at these conditions, Tim would have completely eliminated its debt. The current market value is around five billion euros. However, the Group still has millions of end customers, there is a cloud business, and Tim is a major player with its subsidiary Tim Brasilia, a major player in the Brazilian telecommunications market. The cloud business alone could cover the current stock market value.

In other words, there are activities here that could be quite valuable, but are not adequately reflected by the market. Is this an isolated case in your fund?

The dissolution of the conglomerate discount does not only occur with large corporations. Companies are usually listed according to their activities and sometimes also according to their biggest problem areas. What happens off track often goes unnoticed. For example, we are invested in the French company **Quadient.** The company is a leader in postage meters. The business probably has little long-term future, but it generates quite a strong cash flow. This cash surplus will be used to invest in two business areas. One is software for tracking parcels and mail processing including its archiving. In addition, the company is investing heavily in parcel lockers and is one of the few companies to offer them independently from delivery companies. Quadient is even represented in Japan. Comparable companies for these two business areas are valued at more than one billion euros. Hence, I feel quite comfortable with Quadient, which has a market value of 545 million euros.

You said that two criteria are important, what is the other criterion?

The second criterion is the net present value of future profits. However, in steel production, we do not follow the common valuation models. Everything can be explained by those, but they usually miss reality. We look at what a company has generated in the past and consider whether the historical operating margins can still be achieved today. Based on this we calculate the profits that a company can generate in the medium term. We then apply a fair multiplier. If the calculated value is far above the stock market price, we might have found an investment opportunity.

Do you have any examples of such investments in your fund?

Salzgitter currently has a price/earnings (P/E) ratio of 1.7. In other words, 60 percent of my investment is covered by the current profits alone. The earnings will normalize. But even on a normal valuation it is valued below the historical averages. The catalyst should therefore be the share price. The previously mentioned Quadient also has a P/E ratio of less than six and, thus, is valued at less than half of the market average, even without taking into account the future activities

Is there a key figure that you are particularly you have in mind?

We work primarily with the key figure Nopat/Enterprise Value. It sounds complicated, but it's relatively simple. Nopat stands for the net operating income after interest, in other words, what we earn as potential owners. The enterprise value is the market value plus net debt minus net assets, hence the price for the entire company including all assets and liabilities. This way we calculate the return on capital employed for the entire company. If the return is at least twelve percent, an investment may be considered.

Do you also work with share price targets, and how do you then proceed once these are reached?

The fund management pays strict attention to the return ratio. If it falls below a certain range, the fund should not remain invested. But the exit does not happen instantly. We rather reduce the position continuously once the valuation approaches our target level.

However, there are also investments that do not work out. What do you do in such cases?

In principle, we have a long term view and staying power, if the key figures are all right. But there are scenarios, for example, when the business model changes and we can no longer calculate earnings or if the debt level is getting out of control, we pull the brakes. In the utilities sector, for example, we are no longer involved. The world has changed too much, and the traditional business is hardly calculable.

Do you also look at environmental issues in your investments?

We are not an eco-fund. But we do hold many companies that have done their homework in the environmental field. For instance, take **Danieli.** The Italian company equips steel companies with the latest production equipment, runs a large model plant with the latest technology in its home country and also has a fat bank account which, according to our calculations, covers the stock market value. The technology it has developed in-house can massively reduce carbon dioxide emissions in steel production. The order books are full. Due to the high level of liquidity investors pay practically nothing for their investment. A normalized return of the company should allow for a price potential of more than 50 percent.

There are two classes of shares at Danieli, common and preferred. Which do you hold?

The preferred shares. They trade at a very high discount. We tend to always do it this way. If there is a choice, we usually go for the less expensive class. This offers a special opportunity if the company wants to streamline the structure at some point. In the case of Danieli, there has already been a conversion offer for the preferred shareholders. But it was too low, and most shareholders - including ourselves - did not accept it. It cannot be excluded that an improved offer will be presented again. But that is not our investment objective.The business is undervalued, and when the situation unwinds, the prices of common stocks and preferred stocks rise.

The search for value stocks leads you to specific values. In reviewing your investments, I came across Savencia. What is the investment story in this case?

The company name is indeed hardly little known. The products, on the other hand, are familiar to many from the refrigerated shelves of supermarkets. With brands like Géramont, Milkana and Bresso, **Savencia** is one of the leading cheese producers in Europe. When I met with the management, it became clear that there was more behind it than I had previously thought. When the stock price then massively came off it was the time to invest. In the past it had become obvious that while the company had been affected by short term price fluctuations it had returned to long term normalization again. At the moment, the P/E ratio is in single digits and the major competitors are trading at significantly higher prices.

Are so-called fallen angels another category in your fund?

It goes almost automatically with our approach that particularly cyclical growth companies become interesting for us from time to time. The Italian coffee machine manufacturer **De'Longhi,** for example. We invested at an early stage at single-digit prices. Then the price ran up to over 30 euros and we got out. Now the share has lost massively, because the company has to consolidate. The valuation fits again. I know the company well and now I only have to see if the investment idea from back then is still valid. And I think that the company has by no means exhausted its market. A growth stock at a value price.

Do you have another example?

The company **Vopak** from the Netherlands fits this mold too. Its original business is the storage of oil. Vopak has grown strongly in the past. New warehouses were opened, and margins were high. But the profitability attracted investment companies. This created pressure on margins. When the oil markets were rattled, the share price corrected massively and lost its growth premium. We believe that the value of existing capacity is not adequately reflected in the share price. And especially in the storage

of chemicals, a new market for Vopak, promises even higher margins. In the course of adapting to supply chains, chemical companies will be forced to use larger warehouses. And this is where established and reliable suppliers are in demand.

A look at your portfolio shows that you are broadly invested in terms of company size. How does that fit together?

In value investing there are no boundaries. Even very large companies can be very good value, despite they are covered by many analysts. Because we have a longer horizon of observation, we are not as affected by short-term fluctuations. When I can invest in Italian oil company **Eni** for four times the profit, I am well aware that the valuation may be relativized in the coming years. But it is likely to remain inexpensive.

That applies to many oil stocks. What makes Eni do better?

We are also involved with **Shell**. With Eni we like two points in particular. The valuation is very low. Even in challenging years the group has kept investing in exploration, with success. In particular the strategy of only taking partners on board when success is very likely, pays off well. This way the capital employed can be optimized. In other words, by the time others get on board, Eni has already earned its stake. Besides the low valuation there is also an exciting lottery ticket included, practically for free. Eni is the largest shareholder of Commonwealth Fusion Systems. If industry reports are to be believed, the company was the first to achieve nuclear fusion under laboratory conditions. Experts hope that this technology will solve the world's energy problems.

INTERVIEW: JÖRG LANG

FUND OF THE WEEK

Pure Value Package

Almost 15 years ago, the **Fidecum Contrarian Value Euroland** was launched. The fund invests in stocks listed in the Eurozone. The asset allocation is not based on a country or sector weighting. The fund management applies a screening measured by its own proprietary return metric. Companies that promise a return of at least twelve percent are considered for investment. This corresponds roughly to a P/E ratio of eight. In the current fund composition the P/E ratio is as low as 6.6, which would correspond to a return of 15 percent. The fund is very concentrated. At the moment, it contains 32 stocks. The ten largest positions accounted for 57 percent at the end of the year. The calculation has worked out so far. Since its launch the fund has outperformed the outperformed the benchmark. The outperformance was particularly well in 2022 and over the past three years. A look at the long-term price history also shows that, despite volatility, there have always been longer upswing phases in which the fund outperformed its benchmark index. As the chart suggests, the Contrarian Value Fund may have entered such a phase. LA

CONCLUSION

Buy cheap, sell more expensive - the fund is suitable for investors who want a long-term buy-and-hold strategy with value stocks from the Eurozone.