Ophorst
Van Marwijk Kooy
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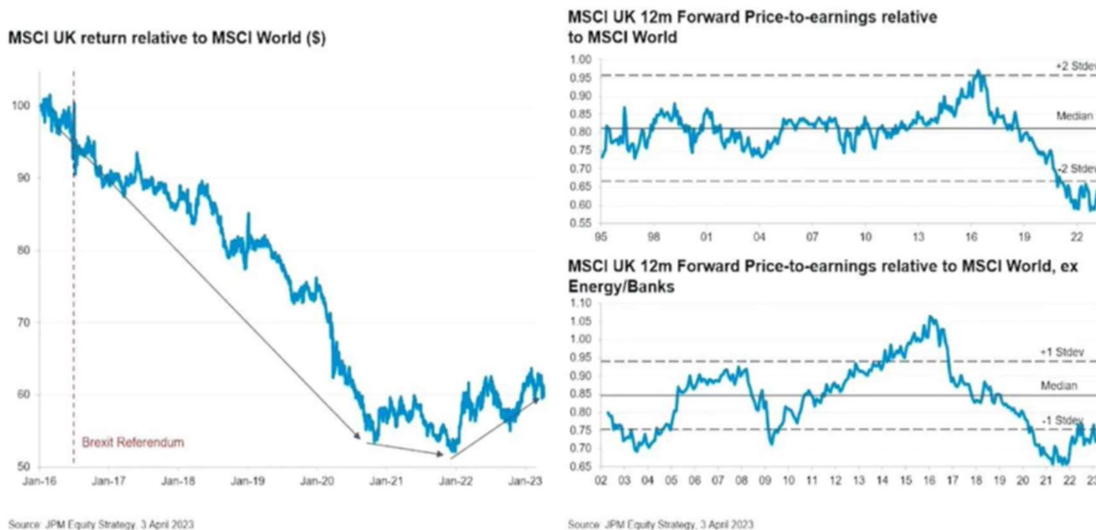
Quarterly report Q1 2024

Early on in the quarter investors again seemed to be concentrating purely on a small part of the market: growth. Whereas a few years ago it was bike courier and takeaway delivery services, crypto investments and anything related to electric vehicles, now it's AI that's the order of the day. With almost dizzying enthusiasm, investors are pouncing on everything that contains even a scrap of Artificial Intelligence. A reversal was visible at the end of the quarter though. The market has started to display interest in the underperforming Value sectors in the last few weeks. The portfolio was consequently able to note a positive return in March, with price gains in a variety of areas. The oil price has quietly been moving much higher, while gold has acquired a tailwind on the sly as well. This is good news for our investments in oil and the Aris Mining gold mine. The developments surrounding the reopening of the Ceyhan pipeline are a much more important issue, however (on which more later). On top of this, we've seen the same forces we've discussed before at work in the UK's mid and small-cap segment: takeover attempts and offers. This time it was the sale of a major division of a new model name, Marlowe, which stood out. We discuss this in more detail later in this report.



Our portfolio includes a large number of companies with a UK listing. The above charts show just how cheap the UK market has become versus almost all other markets. This fact also explains why the portfolio hasn't experienced the same tailwind as most other markets. And this is precisely where our optimism lies: the UK market is too cheap and has a large amount of upward potential once more investors realise this. If they don't, foreign companies will swoop in to take advantage of these opportunities and more companies will be removed from the stock exchange. Seven of the FTSE 350 companies have already been taken over in the first quarter of 2024, while last year the figure stood at just two. The forces of capitalism are clearly at work and could boost the UK market in coming months.

JENSEN: one machine isn't necessarily the same as the next

We've written about Jensen in previous quarterly reports. It's a company that operates completely below the radar (but is no less attractive for it) and manufactures fully-automated washroom systems. These enormous machines are installed in cruise ships, hospitals, hotels and other professional settings. We've invested in this great company ever since we started out and publication of its most recent annual results seems an appropriate time to take another look at this investment. It's also enlightening to compare this company with another that's currently very much in vogue: ASML.
Jensen presented its annual results in March. For the first time in the company's history, revenue reached the EUR400 million mark and it noted record profits. It has an extremely full order book and margins are increasing. The company operates in a market in which revenue is split between just two major players: Jensen and Germany's Kannegiesser. Thanks to this duopoly, Jensen is in a position to achieve attractive margins, in part because both companies understand all too well that a price war is in no-one's interest. Jensen has a market value of EUR350 million and is a genuine family company. The Danish Jensen family is founder and major shareholder and Jesper Munch Jensen is CEO. So what does an investor get in return for buying shares at EUR37 each? Firstly, a company that is free from debt. Earnings per share were EUR3.39 in 2023, demonstrating that investors value the company at only 11 times its annual earnings. This valuation is in fact even lower when you realise that Jensen made a major acquisition in Japan in 2023 that only contributed to a portion of the year's results. This means we can count on a further upturn in earnings in 2024, as a result of which earnings per share could reach EUR4. The equity valuation will then fall to about nine times the annual earnings. Compare that to another machine manufacturer: ASML. They are of course totally different companies but do share some similarities as well: both operate in growth markets in which they face very little competition. Although you might not expect it, Jensen's machines also contain a large amount of technology and the company invested in robotics and AI at an early stage. Both ASML and Jensen have a client base that would find it hard to switch supplier and this makes their revenues and margins relatively predictable. There's one major difference though: their equity valuations.
ASML shares cost over EUR900 each. ASML earned about 19 euros per share in 2023, which means that investors are prepared to pay nearly 50 times the company's annual earnings. Although ASML will of course continue to grow and earnings per share could then increase, the company has indicated it'll be forced to mark time this year and earnings per share are therefore likely to be lower rather than higher in 2024. This is in stark contrast to Jensen, which will carry on growing this year as well. As one company is viewed as an exciting growth company and the other one isn't (or even analysed at all closely), in relative terms investors are willing to pay five times as much for each euro of earnings at ASML. And that's quite a difference in valuation. Looking back at the two companies' historical valuations, it's possible that investors will once again think valuations in the region of 24 and 30 times their earnings are more appropriate for Jensen and ASML respectively. ASML stocks would still be twice as expensive as Jensen's but on that basis, Jensen would rise 50% in value and ASML would lose 40% in value. Investors currently see things in quite a different light though and this is one of the reasons why the AEX has shot up so sharply in recent months: the equity prices of such companies simply seem unable to climb high enough. And naturally this may turn out to be completely justified when we look back in ten years' time, but there's also a risk involved in valuations that tolerate so little margin for error.

An investor in Jensen stocks has in recent years held a company in the portfolio that has grown just as fast and seen just as big a leap in earnings but not been rewarded with a sky-high valuation. The investor's best course of action is to take advantage of this rather than complain about it.

We remain enthusiastic about this wonderful company and believe this hidden-gem growth company with a Value-style valuation contains a great deal of upward potential.

Kurdistan

It's exactly a year since the closure of the Ceyhan pipeline that led to the now familiar knock-on effects. Whereas pretty well everyone thought the problem would be solved quickly, there's still no oil flowing through the pipeline. A lot is going on behind the scenes, however. The bad news is that the oil companies are still forced to sell their oil to local traders, who come to fetch it in tanker trucks and pay cash at a significant discount. The good news is that the companies continue to make a considerable profit even on the basis of this far from ideal scenario. We're frequently asked: when will the pipeline reopen and shouldn't we sell if this doesn't happen soon?
Gulf Keystone presented its annual results in March and these certainly leave us in no doubt as to the answer to the latter question.
At the current rate of production and a yield per barrel of about USD25, Gulf Keystone earns free cashflow of USD6 million per month. This translates into USD72 million on an annual basis. Add the cash position the company already holds (USD86 million) and you can work out what investors are currently prepared to pay for this company. At a market value of GBP237 million, Gulf Keystone's operations are valued at approximately GBP170 million. This is barely more than the amount Gulf Keystone is owed by Kurdistan for oil it has already delivered. The cash position and amount due for past oil deliveries therefore add up to more or less the company's current market value, which makes the downside of this investment extremely small in our view. Then there's the upside: in terms of current profitability it's already very cheap. The market is only paying three times the free cashflow the company is earning at the moment. Even if the pipeline were never to reopen, this equity is priced at an exceedingly low level. The situation will be completely different when the pipeline reopens, however. At today's oil price, the company would earn annually what investors are currently prepared to pay for the whole company. The only remaining question is when this will happen. That one's much harder to answer. There seemed to be good progress in this respect at the start of this year, with high-level talks between the three parties: Baghdad, Erbil and Turkey. Further progress was subsequently held up by a number of political developments, especially US attacks on groups in Iraq with links to Iran. One major factor in a breakthrough in negotiations is the recent pressure from the US. The international oil companies united to form an association called Apikur at the end of last year. Apikur includes some US members that are using their political influence in the US to make it clear to the Iraqis that a breakthrough is imperative. Further meetings for finding a solution are scheduled for April. Although it's impossible to predict a specific timetable, a great deal of pressure is being exerted behind the scenes. It may take a while to reach a definitive solution or one could be announced out of the blue. Genel, Gulf Keystone and DNO stocks have enormous upward potential once the reopening is announced. A barrel of Brent oil currently costs USD90. A restart of the pipeline with the profit sharing stipulated in the companies' contracts with Kurdistan would mean that their stocks could rise very sharply indeed, which is why we still view this situation as extremely promising. This is especially true because the companies are in any case undervalued and can fall back on a sizeable cash position. We therefore look forward to whatever the coming months will bring.

Marlowe

We first mentioned the new position in UK-based Marlowe in the quarterly report on the fourth quarter of 2023 after we acquired an initial tranche following publication of the company's interim results in November. We increased the size of this position in the course of the first quarter. As with Impellam, the major shareholder here is renowned British businessman Lord Ashcroft and the company has built up a good position in an interesting sector via acquisitions. The management team announced a strategic reorientation at the same time as the interim results. Despite sound results over the first six months of the current financial year and what we view as a promising reorientation, markets failed to respond positively to the results and the equity price dropped sharply. That made it an excellent time to buy more stocks for our portfolio.

Good market position in an attractive market

Marlowe has held a listing on the London stock exchange since 2016 and implemented an acquisition strategy in the B2B service segment under the leadership of Alex Dacre and with the financial support of major shareholder Lord Ashcroft. Following a series of takeovers, the company was split into two divisions in 2021: GRC and TIC. The GRC (Governance, Risk and Compliance) division supplies services and software to businesses to help them comply with the growing regulation and compliance requirements. The TIC (Testing, Inspection and Certification) division conducts inspections of fire safety systems, for example. These activities have a number of extremely appealing characteristics. The market is fragmented, growing fast and contracts are recurring in nature. Thanks to its many past acquisitions, Marlowe has grown into a leading player and is therefore ideally positioned to consolidate its market position further and boost profitability.

Strategic reorientation and popularity among private equity investors

These appealing characteristics haven't gone unnoticed among private equity investors either and their involvement in this sector has increased in recent years. Media reports in mid-2023 that a private equity party was supposedly interested in Marlowe's TIC division therefore didn't come as a surprise. What was surprising, however, was the announcement in February this year that Marlowe had agreed to sell the GRC division to Inflexion for GBP430 million. This is an excellent price and the equity price immediately climbed by over 30% in response.

So what next?

On announcing the sale of this division, the company said it would use the proceeds to pay off all its debts and at least GBP150 million (which corresponds to 150p per share) would be paid to shareholders. Founder Alex Dacre will leave Marlowe to head the GRC operations at the acquiring party. Despite the upturn in price in the wake of the announcement, the remaining activities are still undervalued, even though they (especially Testing, Inspection and Certification) possess the appealing characteristics so popular with private equity parties. It wouldn't surprise us if the remaining activities were eventually bought up by a private equity party as well.

CAB Payments

Global monetary transactions are vitally important to all economic activities around the world. Without international transactions many activities would cease, the economy would slowly slide into a recession and businesses unable to receive payments in time would go bankrupt.

Banks have always been leading players in enabling worldwide payments between parties, including in foreign currencies. However, mounting regulatory pressure and the threat of sanctions are increasingly turning dealing in foreign exchange into an activity the banks prefer to avoid. This gives niche players an opportunity to step in and fill the gap, which brings us to a company we added to the portfolio at the end of last year: **Crown Agents Bank**, or **CAB Payments**.

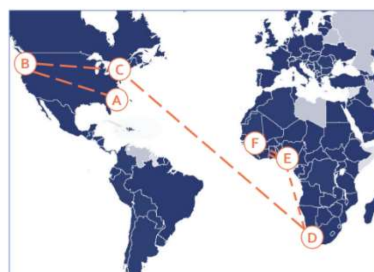
In 2016, this now 191-year-old bank was acquired by a South African private equity party. It added international payment activities to the bank in 2019, creating a network of commercial relationships with clients, currency traders and local banks and enabling efficient payments and foreign exchange. CAB Payments' strong point here is that it can execute payments faster and at a lower cost for clients. Its clients are international development organisations (such as the UN or World Bank), central and commercial banks in emerging markets and other public investment organisations. Since the first full year in its current form, CAB's revenue has increased from USD34 million (2020) to USD137 million last year.

CAB has two main activities: 1. The exchange of (foreign) currencies into e.g. euros or US dollars and subsequent repayment to the client and 2. The exchange of (foreign) currencies and onward payment to the beneficiary. CAB earns fees from enabling transactions and from the differences in exchange rate that the company can charge. Its activities are strongly focused on Africa (hard-to-reach markets). Alongside these activities, CAB continues to operate as a 'normal' bank that generates revenue.

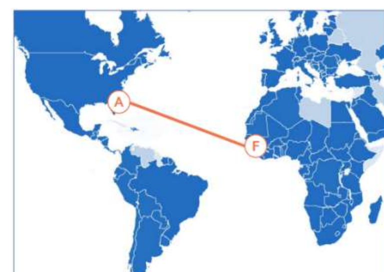
So why are payments or the exchange of foreign currencies so difficult? Which difficulties does CAB solve? Examples abound of ways in which consumers can easily make payments in other countries, such as via the simple use of credit cards (VISA or Mastercard) or payments via Western Union Bank or Wise. Yet these parties all focus on business-to-consumer transactions and not business-to-business transactions. Businesses are often reliant on their bank for getting money from a to b and along the way a large amount is lost in fees and deductions. The CAB Payments network provides much more efficient processing, while the company is also profiting from the banks' withdrawal from such transactions.

What do we do?

CABP's proprietary network removes friction from traditional payment rails



Traditional international payments - multiple hops based on regional bilateral arrangements



CAB Payments single hop using dedicated emerging market infrastructure

How CAB can make a difference. Source: FY '23 presentation CAB

Following a period of growth and a much better-than-expected 2022, investor Helios seized the chance to list the company on the stock exchange in the UK. It was one of Europe's biggest initial public offerings in 2023.

Just three months after the listing, however, the company issued a short press release that took markets completely by surprise. CAB trades globally in over 100 currencies but trade barriers had been erected in some trade corridors. The upshot was a revenue and profit warning.

In particular the resulting lack of clarity caused investors to downgrade the equity en masse and the news was so big that after a few months this listing had led to a price loss of over 75%. This was the moment for us to re-examine the situation and enter into dialogue with the company. These talks served to reassure us of the minor impact of the events and furthermore CAB trades in enough other currencies to have a broad revenue base. The company's growth results corroborated this position.

It will take time to restore investor confidence. However, anyone who examines the broader picture will see a niche company with zero debts, which operates in a growing market with a product service that is difficult to replicate. The equity price is now recovering from the downturn in October 2023 and the company recently published its final results over 2023 and outlook. It says it will continue to invest in new network points by opening offices in Amsterdam and the US. The latest news is that the company has obtained a banking licence in the Netherlands, to which the equity price responded extremely positively.

Earnings per share decreased from 14 to 10 cents in 2023. Investors who take a closer look will nevertheless see that one-off costs were incurred for the market listing. This means that earnings per share should have been 16 cents rather than 10 cents. This is less than six times the earnings over 2023 and CAB's revenue is expected to grow further in coming years, while expenses will remain under control. Despite the volatile nature of currency trading, we think this company is valued at an exceedingly favourable price and will continue to watch developments with interest.

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