



# Strategic European Smaller Companies Fund

July 2019 Fund Commentary



**Bertrand Faure**  
PORTFOLIO MANAGER

During July, European equity markets suffered from little direction and low trading volumes. The Fund recorded performances of -1.03% and +16.26% MTD and YTD respectively.

Ipsos was the largest monthly performance contributor, followed by Akwel and Albioma.

Ipsos reported its H1 results during the month with good news on organic sales growth, which has accelerated since the beginning of the year from +0.7% for FY 2018 and +2.4% in Q1 to +3.6% in Q2. This H1 momentum was driven by emerging countries and clients in the Technology, Media & Telecom (TMT) sector as well as the public sector, and benefited from the stabilisation of the mass consumption segment.

Ipsos' direct competitor Kantar, WPP's market research subsidiary, continued the exclusive talks mentioned in last month's letter. On 12th of July, WPP announced the disposal of a 60% stake in Kantar on terms that would value Kantar as a whole at £3.2bn, equalling an EV/EBITDA multiple of 8.2x. Kantar is ranked number two globally in the market survey industry, behind Nielsen and ahead of Ipsos. According to the Investment Adviser, the companies are very much alike, leading the team to believe that the valuation metrics implied by Kantar's disposal could prove useful in assessing Ipsos' investment case. By applying Kantar's disposal price to Ipsos, the team estimate a valuation of €32.4/share, which implies a 40% premium to the current share price.

Akwel also reported its H1 revenues in July, posting a +3.4% organic growth, which the team believe is quite remarkable for an auto supplier given the industry's currently lacklustre environment (7% production decline in H1 according to Valeo\*). As mentioned in several letters, Akwel has little exposure to the Chinese market and German OEMs, both of which were severely impacted in H1 by the auto environment, with all targets having been confirmed for 2020. Finally, Akwel recorded a €26.2M free cash flow for H1 alone, compared to a €430M market capitalisation as at 31 December 2018 (translating into a 6% yield over a 6 months period).

Albioma, the Fund's largest position, reported very strong H1 results during the month with robust operations across regions and technologies, including the commissioning of two photovoltaic plants with storage in Guadeloupe and Reunion Island. The first half of 2019 showed continued growth in revenue (+19%) and EBITDA (+17%), and the FY2019 targets were confirmed with an EBITDA guidance of €168m - €178m (with the team being confident that management can reach the upper end of this range). The Investment Adviser believes that the current and revised upward capex plan also continues to ensure good visibility on the earnings growth for the next few years.

At the other end, Valmet, Tarkett and Gränges were the 3 main detractors.

Following several quarters of improved results and earnings upgrades, Valmet's margin for Q2 came out at 7.7% vs consensus expectations of 8.3%. Looking at the details, the softness in service sales, which declined (excl. acquisitions) by ca. 1% organically compared to Q2 2018, was the soft spot of the release. This said, the Investment Adviser believes that this could relate to quarterly volatility as H1 sales still grew 5% organically. This temporary setback has not impacted the Investment Adviser's view of the Business and the Company's valuation potential. As a local broker mentioned recently, if Valmet's Services business was only valued in line with the engineering sector (although obviously it should be at a premium) and its Automation business at a 10% discount, the result would be a fair value of around EUR 20 per share. The implicit value for the capital business is consequentially massively negative.

## INVESTMENT APPROACH

The Fund's competitive advantage and its key differentiator between it and its peers is the ability to focus on target companies from every angle and leverage the network of relationships and corporate access provided by a number of stakeholders, including founding partners to provide a real understanding of the market share and performance of the investee companies that results in the totality of the investment research being generated internally.

## INVESTMENT OBJECTIVE

To outperform small and medium capitalisation firms in the European equity markets

A sub-fund of E.I. Sturdza plc.  
Registered in Ireland.

## CONTACT

E.I. Sturdza Strategic  
Management Limited  
+44 1481 722 322  
info@ericsturdza.com  
ericsturdza.com

\* For detailed performance information based on complete 12-month periods since inception, please refer to page 2.

\*\* Valeo, July 2019: <https://www.valeo.com/wp-content/uploads/2019/07/Press-release-2019-H1-Results.pdf>



Tarkett's Q2 release proved more problematic as the strong deterioration of volumes/mix, impacting EBITDA for the quarter, came as a surprise, especially after a reassuring Capital Market Day in June, where the issue was not flagged by management. On the other hand, improvements in the input-cost/price ratio and productivity gains made positive contributions to EBITDA. According to the team, visibility remains low as market conditions are set to remain challenging for H2.

Gränges had another solid quarter in Q2 amid tough market conditions, with the Investment Adviser however believing that the worst should now be behind them. For Q3, the market outlook is mixed with a growing HVAC market in the US, but the auto market continues to be challenging throughout Europe and Asia. This said, Gränges is planning volume growth in Q3 at group level, which is very encouraging. Additionally, the Company's US expansion is on track, which the Investment Adviser believes will start to contribute positively in Q4 2019, and 2020. Similar to Valmet, the post-release weakness in the stock price is considered a very interesting opportunity to reinvest in to this name at a lower price tag.

## PERFORMANCE DATA As at end of July 2019

### CUMULATIVE PERFORMANCE %

	1M	3M	1Y	2Y	3Y	Fund Inception
EUR	-1.03	-2.77	-4.47	-8.83	18.08	20.94
STOXX Europe 600 NR EUR	0.31	-0.38	1.43	8.07	22.68	11.30

### CALENDAR YEAR PERFORMANCE %

	YTD 2019	2018	2017	2016	Annualised Inception
EUR	16.26	-24.86	22.80	13.55	4.59
STOXX Europe 600 NR EUR	16.82	-10.77	10.58	1.73	2.56

**Past performance is not an indicator of future performance.**



## IMPORTANT INFORMATION

The views and statements contained herein are those of Pascal Investment Advisers SA in their capacity as Investment Adviser to the Fund as of 14/08/2019 and are based on internal research and modelling.

Please contact [info@eisturdza.com](mailto:info@eisturdza.com) should you wish to have an update call with the investment team.

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