Could be a gem – selection

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Introduction

Ok, here we go. Out of more than 300 securities, I here now have 16 stocks that offer potential or, at least, an not clear schemes to just squeeze naïve new shareholders out of their money.

The next step in the process is to look at the business from a risk reward perspective, what is the moat, what is the value and what is the upside. Value investing is about first focusing on risk, the upside comes by itself if the risk is managed.

ASA International Group Plc – ASAI -Asia & Africa Microfinance Bank - Could be a gem

Ok, microfinancing?!?!?!? In frontier or emerging markets? At high interest rates but funded by respectable people like Gates etc.

Let's google "the future of microfinance"

https://www.brookings.edu/book/the-future-of-microfinance/

it is 200 million people now

issues: "mobile banking" and "oversaturated markets"

criticism – HIGHEST INTEREST RATES and NOT ALLEVIATING POVERTY.

https://www.weforum.org/agenda/2018/02/move-over-microfinance-here-s-why-the-future-of-development-is-in-nanofinance/

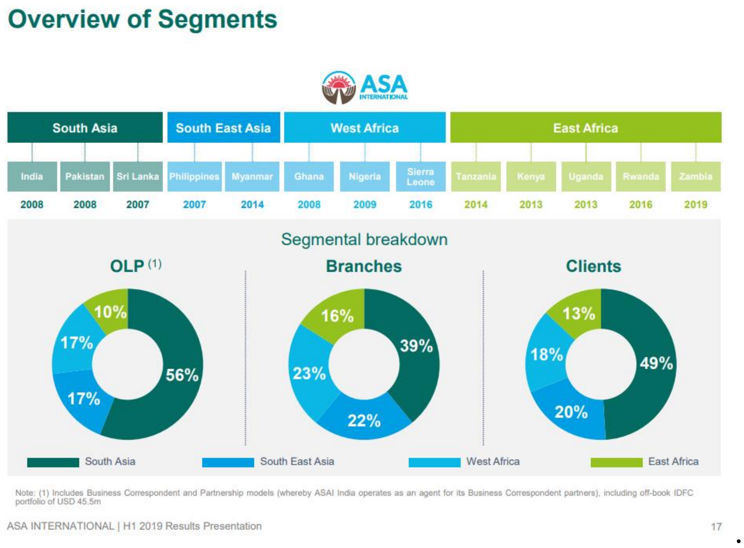
33.8% as we see down is what the company is charging. So, it started as a noble cause and it turned into extortion. That is what this is. I think, one thing is the greedy Chinese that pays 36% to buy the newest shoes, an other thing is the mother that needs to feed her family.

So, as much as I like the idea, it can be only bought at book value, or below book value where the value has to be only cash, if you want to invest from a value perspective.

Prior content:

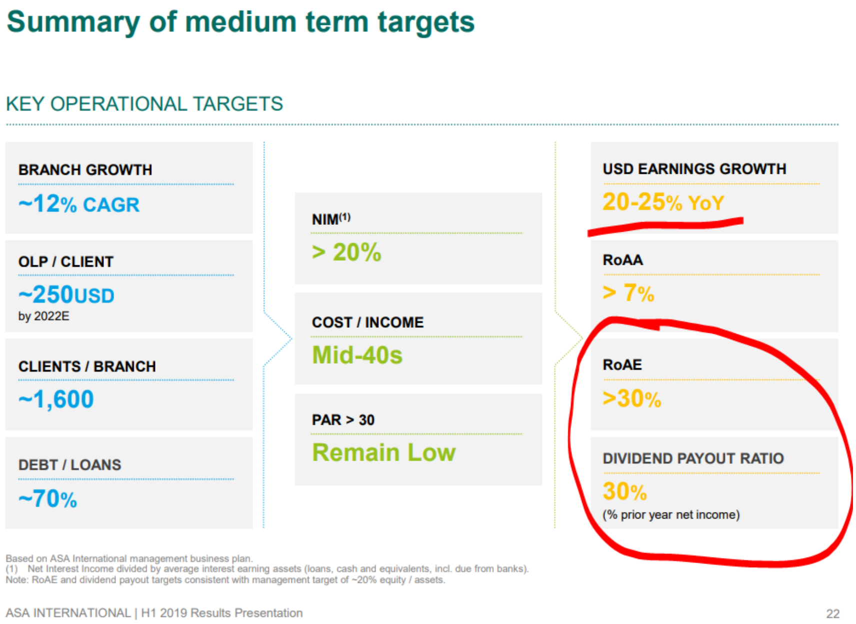
ASA International is one of the world's largest international microfinance institutions providing small, socially responsible loans to low-income entrepreneurs, most of whom are women, across Asia and Africa.

The company has an average loan of $181 with a rate of 33.8%. Funding from international lenders (inter alia Gates Foundation, Oikocredit, Symbiotics and OPIC). I wonder what will this look like in 50 years as there could be more business, not just microlending.



Source: [ASAI]()

Further, if they continue to grow at 20% and pay out a dividend, the sky is the limit.



Source: [ASAI]()

$32 million profit in 2019 should lead to a dividend of $11 million, for a dividend yield of 2.75% and a PE ratio of 12.5%.

But, if they do grow at 25% over the next 10 years, the profits should be $300 million. However, revenue growth is 17%.

This could be a gem if it continues to grow at expected rates.

Clipper Logistics plc – CLG – hit alongside retail but it is e-fulfilment

But, then again, they are competiting with DHL, Amazon… It is a game of scale. Margin of safety?

Price to book is 5.7 – thus just based on growth. Could be, might not be… too risky!

Prior content:

Retail and high value logistics. Stock has declined alongside other retail but finances remained stable. The thing is the PE ratio is still around 20 which means it was around 40 when the stock was higher.

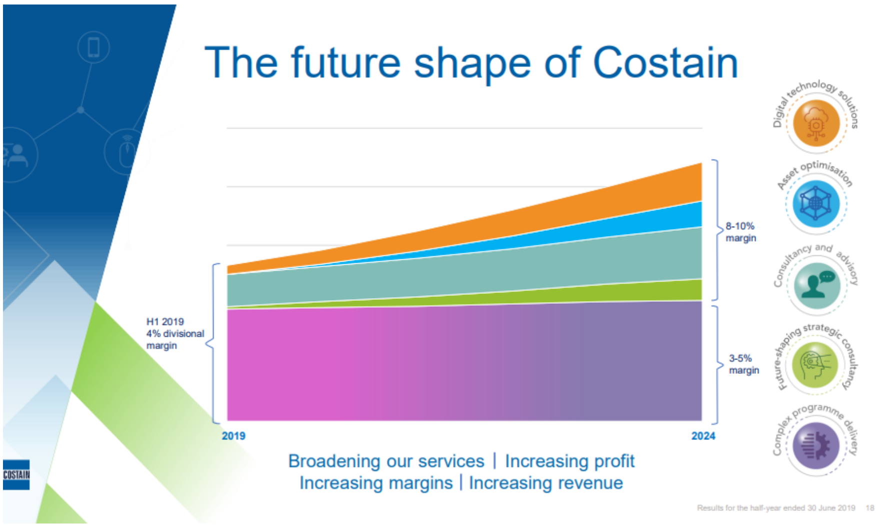
However, they focus on e-fulfilment which is growing fast and the key for the future. They are expanding and building facilities in Poland.

9 pence dividend is also not a bad thing. The growth might continue and margins are the question. It could be a gem. A sector analysis could be interesting.

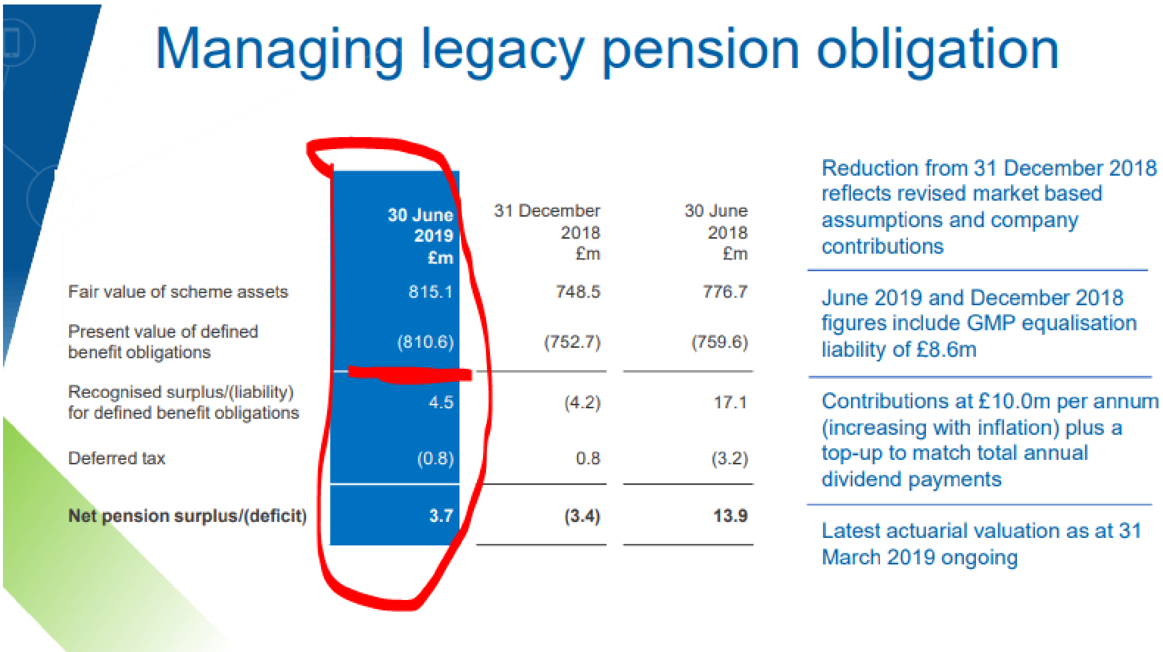
Costain Group plc – COST – High pension risks

Too high pension costs, forget about it.

Costain Group plc is a British technology based construction and engineering company headquartered in Maidenhead. It was part of the original Channel Tunnel consortium, and is involved in Private Finance Initiative projects. They consult for infrastructure, from roads, rail, water to resources. They have a very low margin but they are trying to increase it. If they can, this could be a gem.



A big issue for many older businesses are pensions. COST has an obligation of £810 million. It also has assets, but a market decline of 10% would increase obligations by 80 million.



Too much risk for me.

Forterra – FORT – depends on building market in the UK but looks good

Depends on UK housing, that is a completely different story to invest in.

Prior content:

Forterra is a manufacturer of building products for the UK's construction industry. The company own brands such as Thermalite blocks London Brick Ecostock Cradley Formpave Jetfloor.

3% dividend, depends on building market in the UK.

They went public to lower the debt, the PE ratio is low now but the cash flows have been consistent. This could be a gem but you have to buy it when the market is bad as it will be earnings negative but cash flow positive.

Forterra PLC FORT

Financials

Export Ascending

	2009-12	2010-12	2011-12	2012-12	2013-12	2014-12	2015-12	2016-12	2017-12	2018-12	TTM
Revenue GBP Mil	—	—	—	—	226	268	290	295	331	368	381
Gross Margin %	—	—	—	—	28.0	37.4	42.2	41.9	40.5	37.4	36.6
Operating Income GBP Mil	—	—	—	—	1	39	49	51	64	67	67
Operating Margin %	—	—	—	—	0.6	14.4	17.0	17.4	19.4	18.2	17.7
Net Income GBP Mil	—	—	—	—	-2	24	18	28	48	52	54
Earnings Per Share GBP	—	—	—	—	-0.01	0.12	0.09	0.14	0.23	0.26	0.27
Dividends GBP	—	—	—	—	—	—	—	0.02	0.07	0.10	0.10
Payout Ratio % *	—	—	—	—	—	—	—	—	26.7	39.9	39.3
Shares Mil	—	—	—	—	200	200	200	201	203	202	200
Book Value Per Share * GBP	—	—	—	—	—	—	—	0.27	0.47	0.58	0.69
Operating Cash Flow GBP Mil	—	—	—	—	38	37	20	38	77	65	72
Cap Spending GBP Mil	—	—	—	—	-3	-6	-12	-9	-11	-19	-21
Free Cash Flow GBP Mil	—	—	—	—	34	32	8	28	66	47	50
Free Cash Flow Per Share * GBP	—	—	—	—	—	—	—	—	0.27	0.27	—
Working Capital GBP Mil	—	—	—	—	64	-379	30	54	23	20	—

* Indicates calendar year-end data information

Funding Circle PLC – FCH – interesting, trading at cash value but risky

Small businesses are the riskiest, launched in 2010, so no pain seen yet. In a video (https://corporate.fundingcircle.com/investors/results-and-reports), the CEO says that over 40% of revenue is from existing customers, hahahhaha! 100% of revenue is from existing customers, he ment repeat customers😊)))) But this is also the question, are they refinancing because they can't pay back??????

Developing data and credit risk models on just one side of the cycle??

This is what you do:

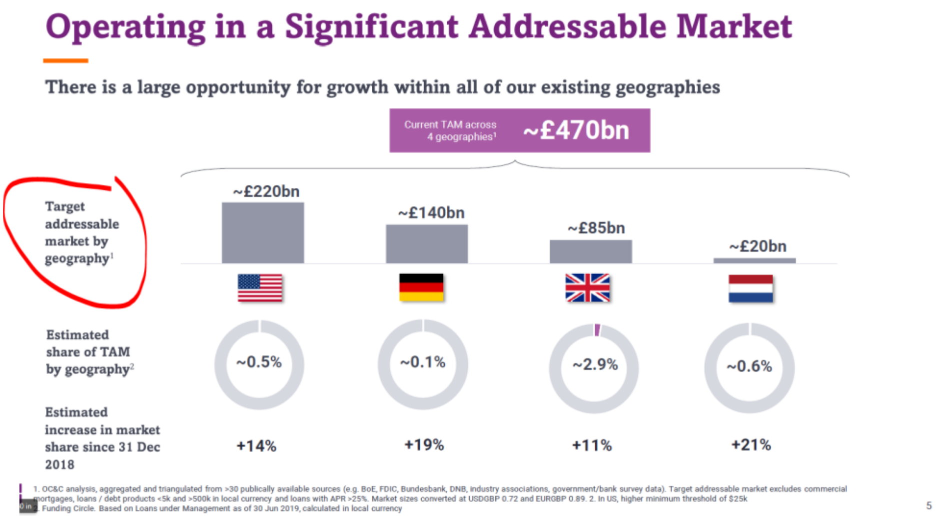
A delicatessen shop in stuttgart – the is the risk – so this is the risk reward of this. High risk, I don't know whether it is a time bomb, but I am not going to find out.

Prior content

Funding circle is another straight down from the IPO.

I think I should make an IPO on the LSE, take the money and run 😊

When you see TAM (total addressable market) run away – I think they teach now in business school not to use TAM, like ever.



Plus, I would get a letter from them practically every quarter for my business in the Netherlands.

They have a higher than 2% default level in a good economy – in a bad one, this will go to 15%.

These guys got £300 million at the IPO and are now trading close to that value.

Hm, this could be a gem if they can scale enough, lower costs and do things well, the 300 million in equity they raised should lead to returns of 7% on that – ok and that is it, yes. Plus the risk of a recession, too much.

Gem Diamonds Ltd – GEMD – interesting diamond market

I simply don't get diamonds, especially when you can engineer them, and then especially in the late part of the economic cycle. I need a margin of safety, infrastructure building from monetary policy 3, - it will not be about diamonds.

Prior content:

Gem Diamonds is a British-based global diamond mining business in Leshoto and Botswana – so much for the global😊.

I am not so sure about diamond prices, there is plenty of them around the world, you just have to mine them, higher prices lead to high production and consequently lower prices. Plus, I don't know if millennials are as crazy for diamonds, perhaps those in China are.

I'll buy one for my wife but that will be it😊

Really don't know about diamond market dynamics but Lucara Diamonds is also to watch. Lucara looks like a better business, but the market is saying NO. The need is to reaserch the outlook for diamonds to see whether diamond stocks could be a gem.

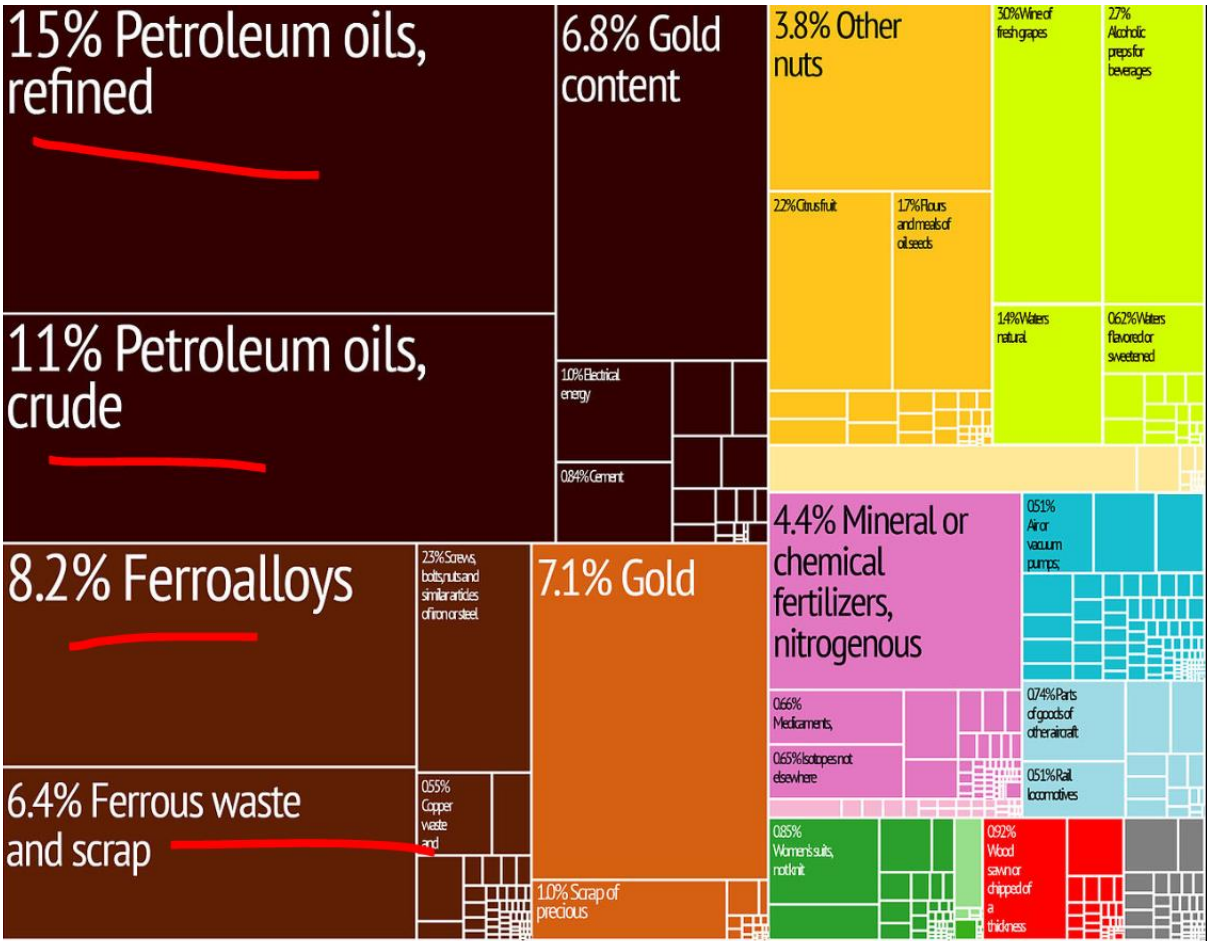
Georgia Capital Plc – CGEO – Interesting exposure to Georgia

Ok, Georgia! What is the economy based on? Nearly failed as a country in 2003 and since then booming thanks to the Rose revolution.

https://en.wikipedia.org/wiki/Economy_of_Georgia_(country)

EU trade partner and the EU accounts for a quarter of trade.

The economy depends on OIL, very simple. !

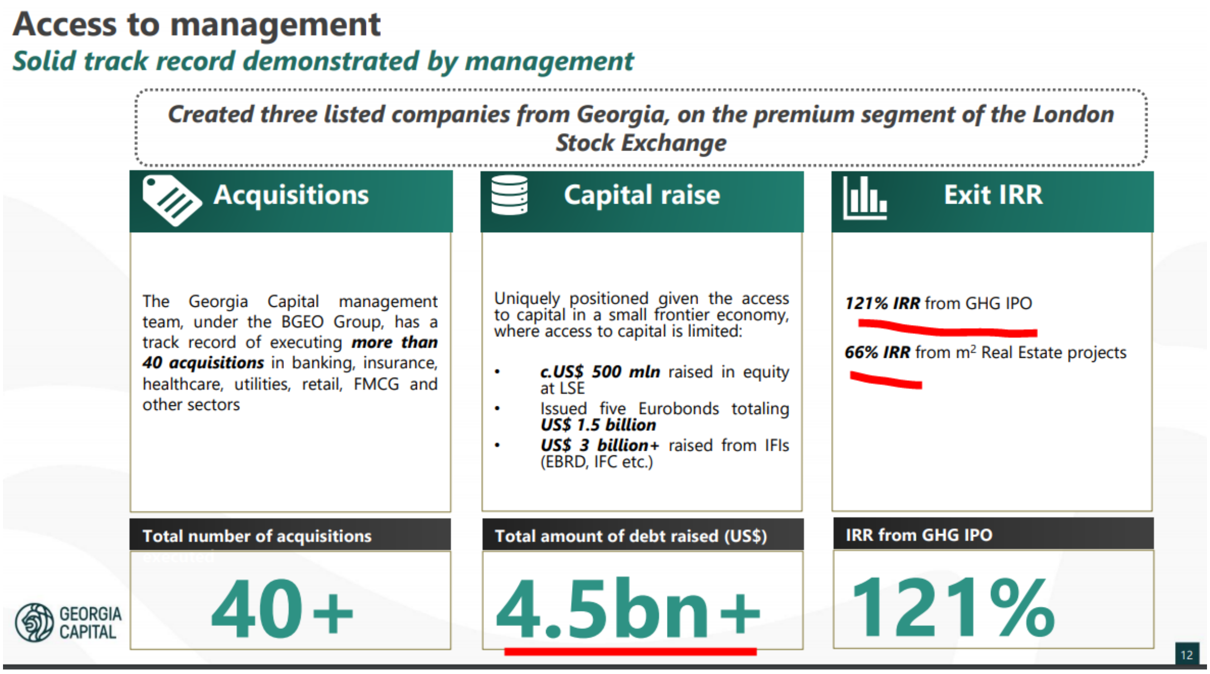


The economy slowed down during oil downturns.

Ecucation deducted 7.7% from GDP growth, that is a focus of the company.
https://tradingeconomics.com/georgia/gdp-growth-annual

Such a general investment is a bet on economy –

They took debt and raised capital, but much more debt



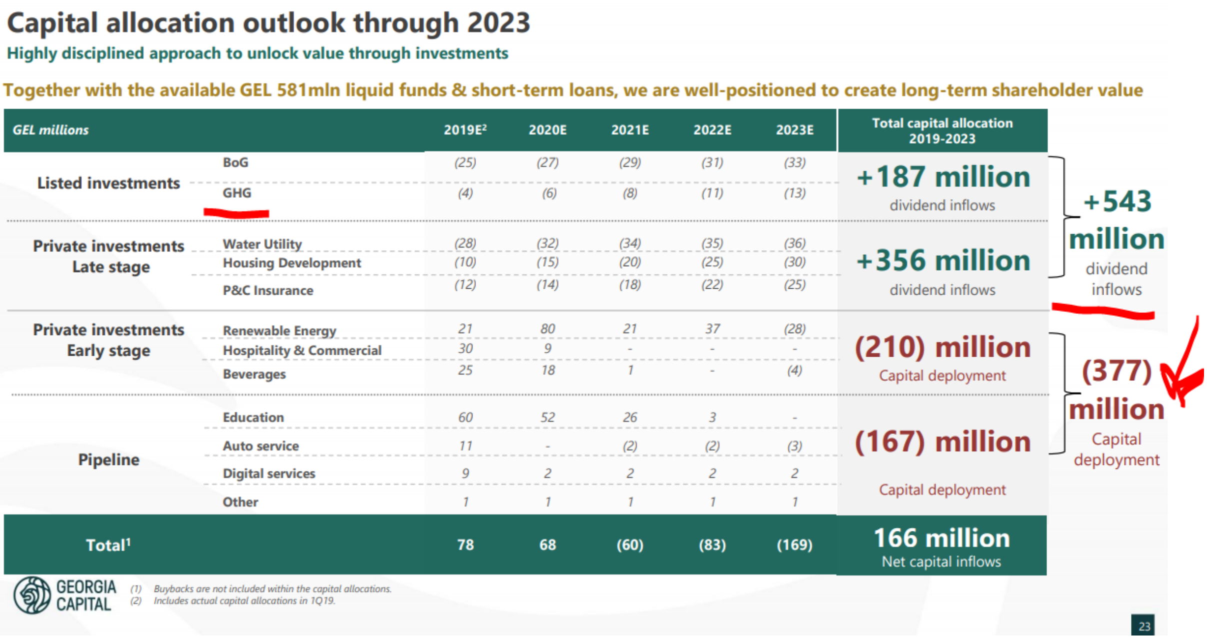
54% of Georgia healthcare group – 234 million, also down a lot -

19.9% in bank of Georgia 707 million market cap – down a lot - 141 million owned

The dividend yield should be around 10% - not a bad thing

GCAP 352 million – not down a lot = 141 million

The promise 10X returns in 10 years, that is 26% per year – is there no competition???



Capital allocation outlook through 2023

Highly disciplined approach to unlock value through investments

Together with the available GEL 581mln liquid funds & short-term loans, we are well-positioned to create long-term shareholder value

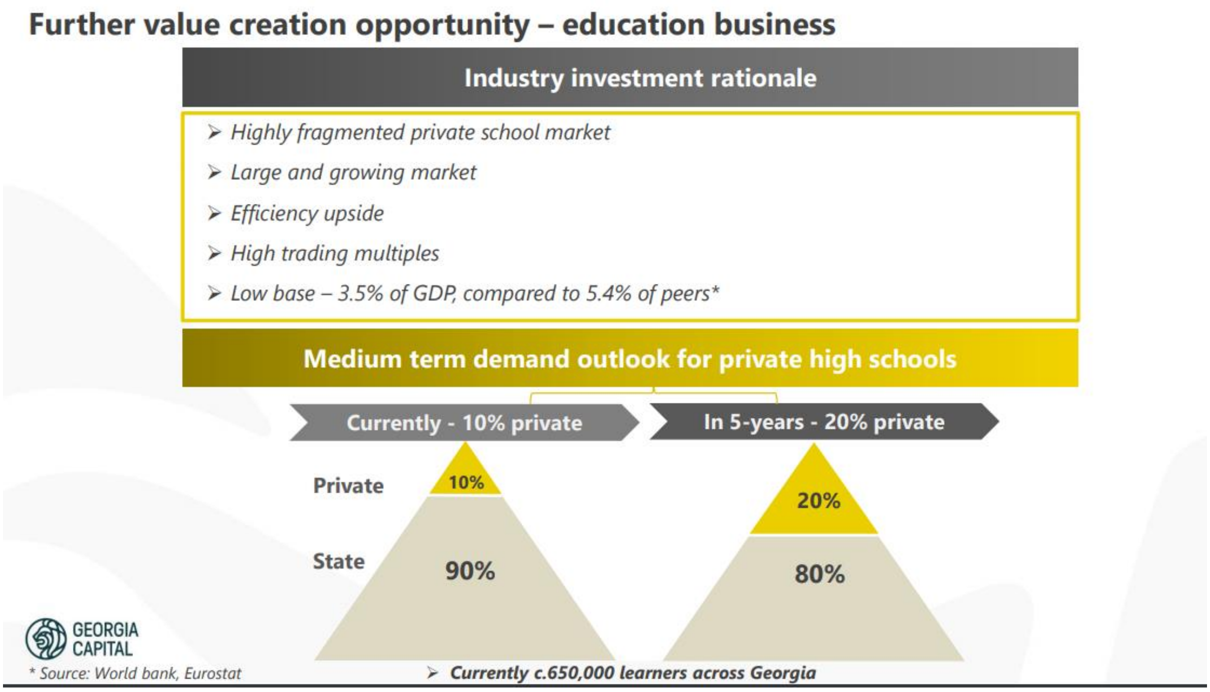
GEL millions		2019E[2]	2020E	2021E	2022E	2023E	Total capital allocation 2019-2023	
Listed investments	BoG	(25)	(27)	(29)	(31)	(33)	+187 million dividend inflows	+543 million dividend inflows
	GHG	(4)	(6)	(8)	(11)	(13)		
Private investments Late stage	Water Utility	(28)	(32)	(34)	(35)	(36)	+356 million dividend inflows	
	Housing Development	(10)	(15)	(20)	(25)	(30)		
	P&C Insurance	(12)	(14)	(18)	(22)	(25)		
Private investments Early stage	Renewable Energy	21	80	21	37	(28)	(210) million Capital deployment	(377) million Capital deployment
	Hospitality & Commercial	30	9	-	-	-		
	Beverages	25	18	1	-	(4)		
Pipeline	Education	60	52	26	3	-	(167) million Capital deployment	
	Auto service	11	-	(2)	(2)	(3)		
	Digital services	9	2	2	2	2		
	Other	1	1	1	1	1		
Total[1]		78	68	(60)	(83)	(169)	166 million Net capital inflows	

GEORGIA CAPITAL

(1) Buybacks are not included within the capital allocations.
(2) Includes actual capital allocations in 1Q19.

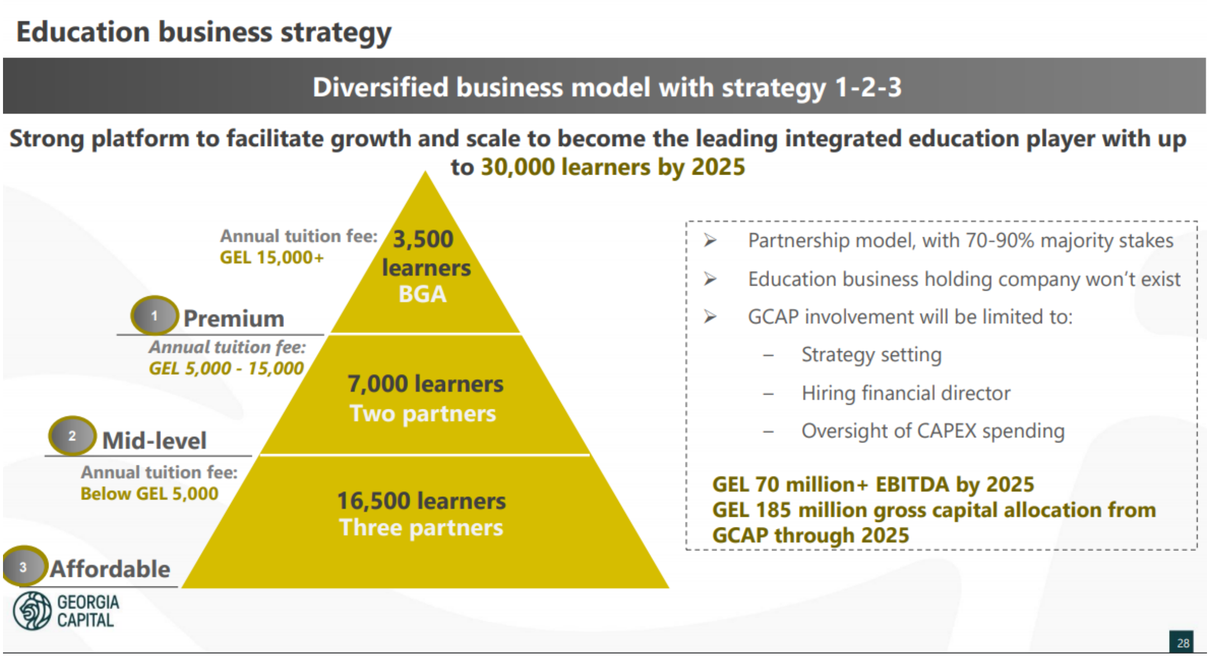
23

From healthcare and banking to renewable, hotels, beverages, but mostly energy and and education.



20% will go to private schools in 2024? GDP per captia is $4k USD - they investing $50 million in education – 10% of 650k learnings is 65k people – they will get a share of that, ok

10000 pupils that can pay a few thousand per year – minus costs at a 10% margin. 100million, for a 10 million return – could be, could be….if those people decide to go to private, at some point it doesn't matter and state might be improving.



Fast growth based on debt – it works for until it doesn't – too risky for me – could be, could be!

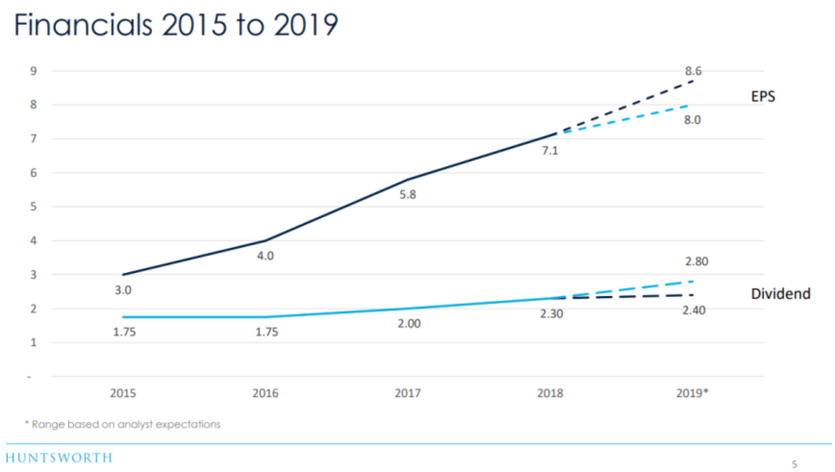
Prior content:

This could be a gem as it is investing in the fast growing economy of Georgia, if thing remain stable there. To look into…

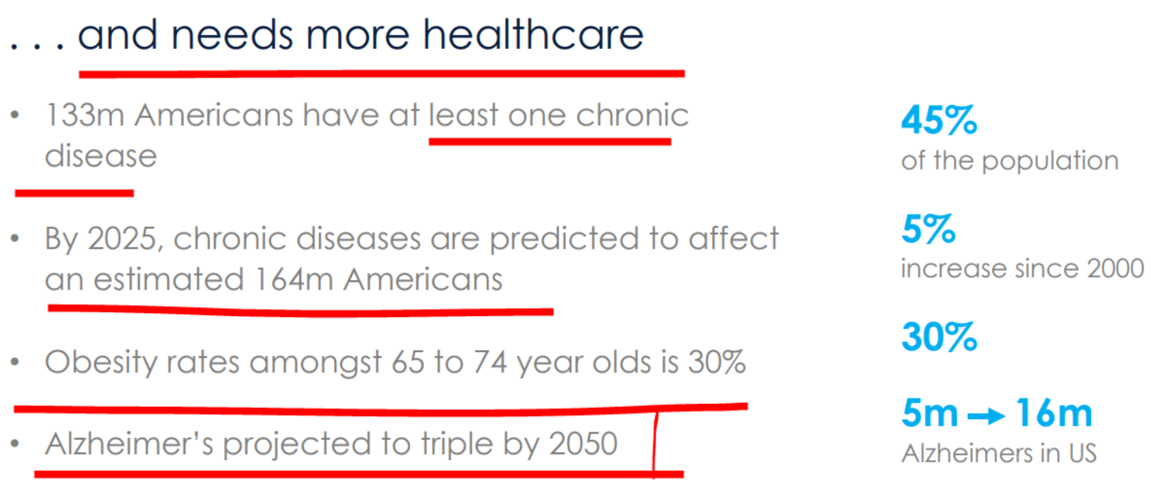
Huntsworth plc – HNT – positive tailwinds, could be a gem, but insane

Huntsworth is an healthcare communications and public relations group operating from 62 principal offices in 29 countries providing services to c.1,870 clients.

They forecast constant growth. But, this is the insane US healthcare market as would Munger say, not for me again.

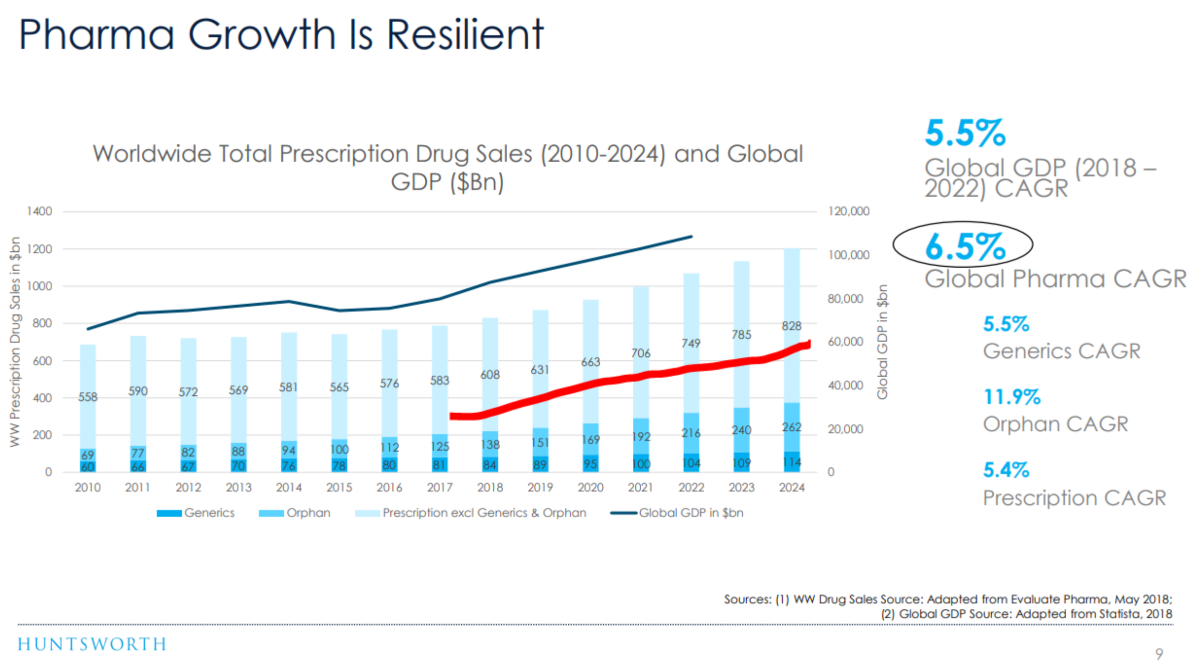


The following should be the best investment in your life, thus this could be a gem, but for you, not for the investment. The following should make you think:



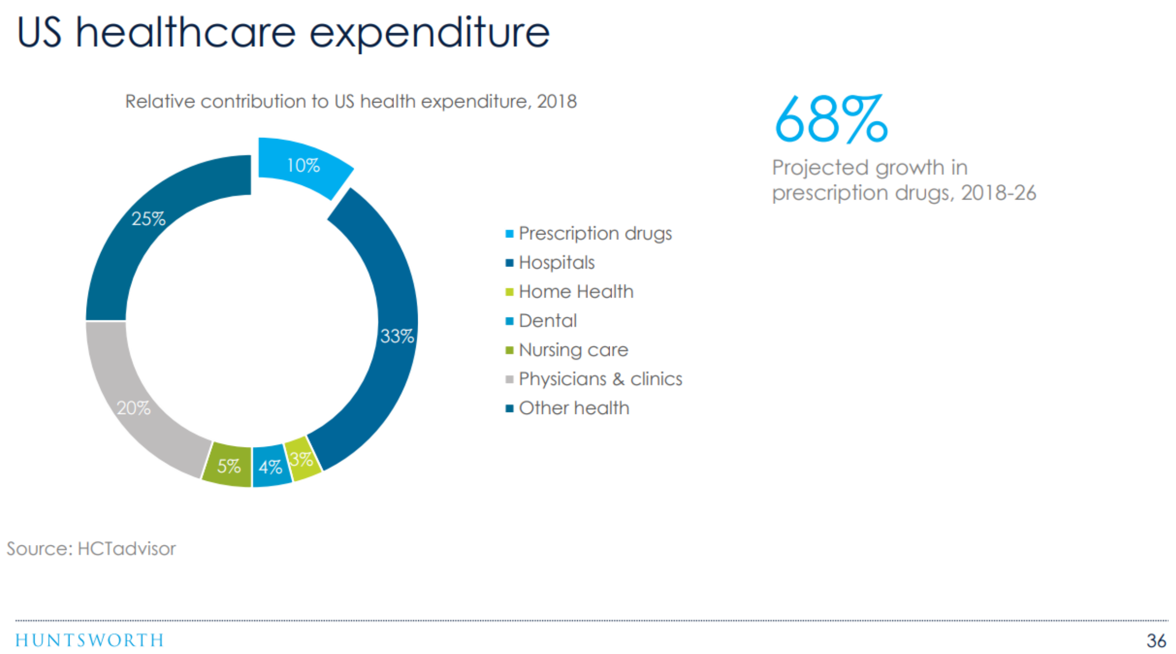
Why it is like this – what you eat you are. Think about it. I didn't take a drug for a decade, my grandfather recently died at age 84 because he had enough but he used no medication at all. Nothing…

For me it is simply insane, the drugs we had 10 years ago probably work fine as they did, but the industry forces you to spend on newer and newer drugs where spending is expected to pass a trillion.



Source: Huntsworth

Perhaps the investment too might do great, given the irrationality in the world, let’s spend more trillions on drugs and live less☹

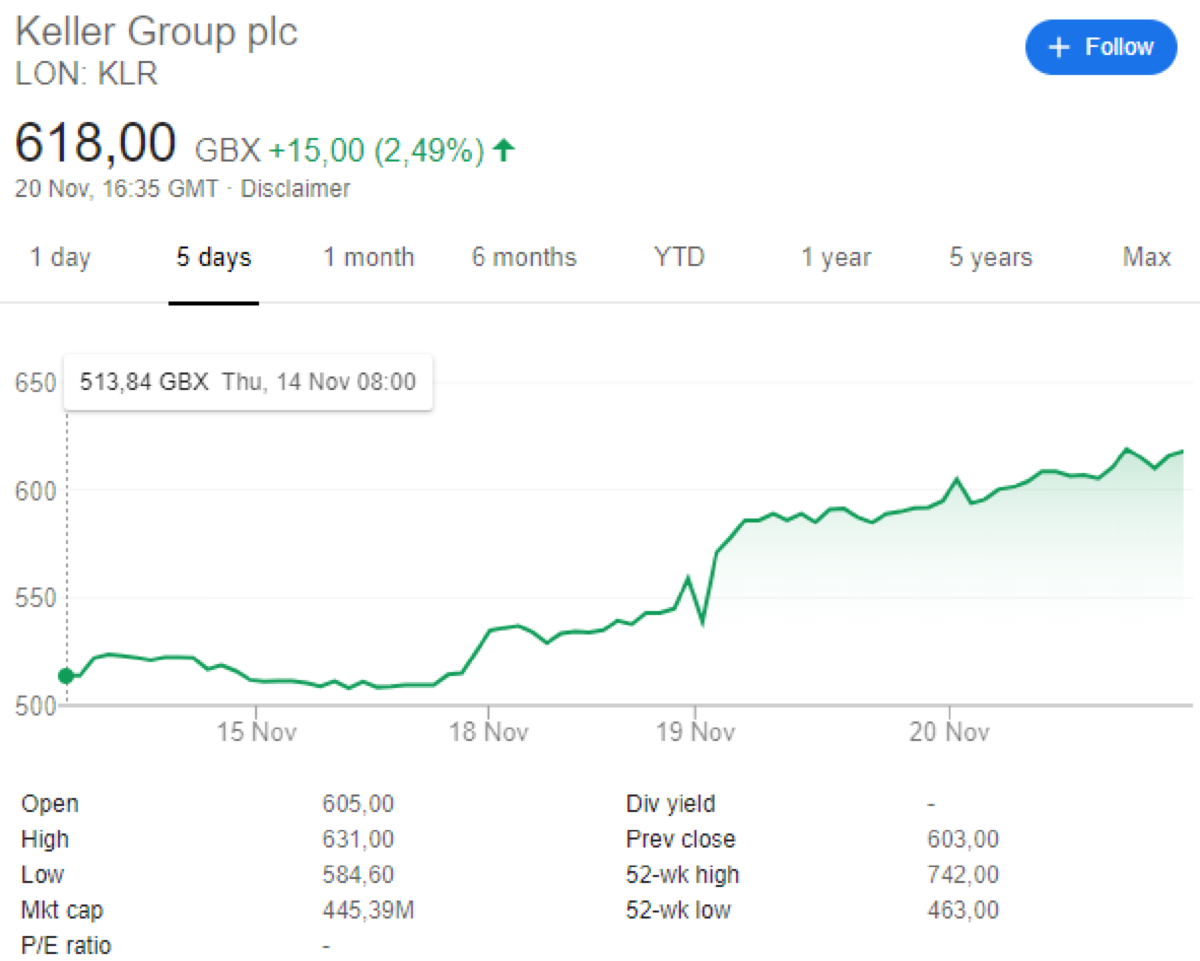


68% growth on spending – insanity.

On the investment, there are some put options and aggressive acquisition strategy to check. But, then again, it might do very well but not for me. 2.7 billion in liabilities, 1.5 billion in equity (didn't check what is just consolidated or not), but any small move in investments would be detrimental to borrowing, refinancing etc. Debt loaded machine, high leverage on emerging market, frontier market – a story I have often see.

Keller Group – KLR – Interesting business

So, the stock goes up 20% over 5 days – thus I was right it could be a gem, to dig deeper.



Long-term, this is a good business, but they have grown liabilities a bit more and more over the last years. Since 1994, the stock, with dividends has delivered 10%, just in line with the growth.

Looks like a stable long-term business. However, it will be about the cycles in global real estate. Hiccups will make it bad.

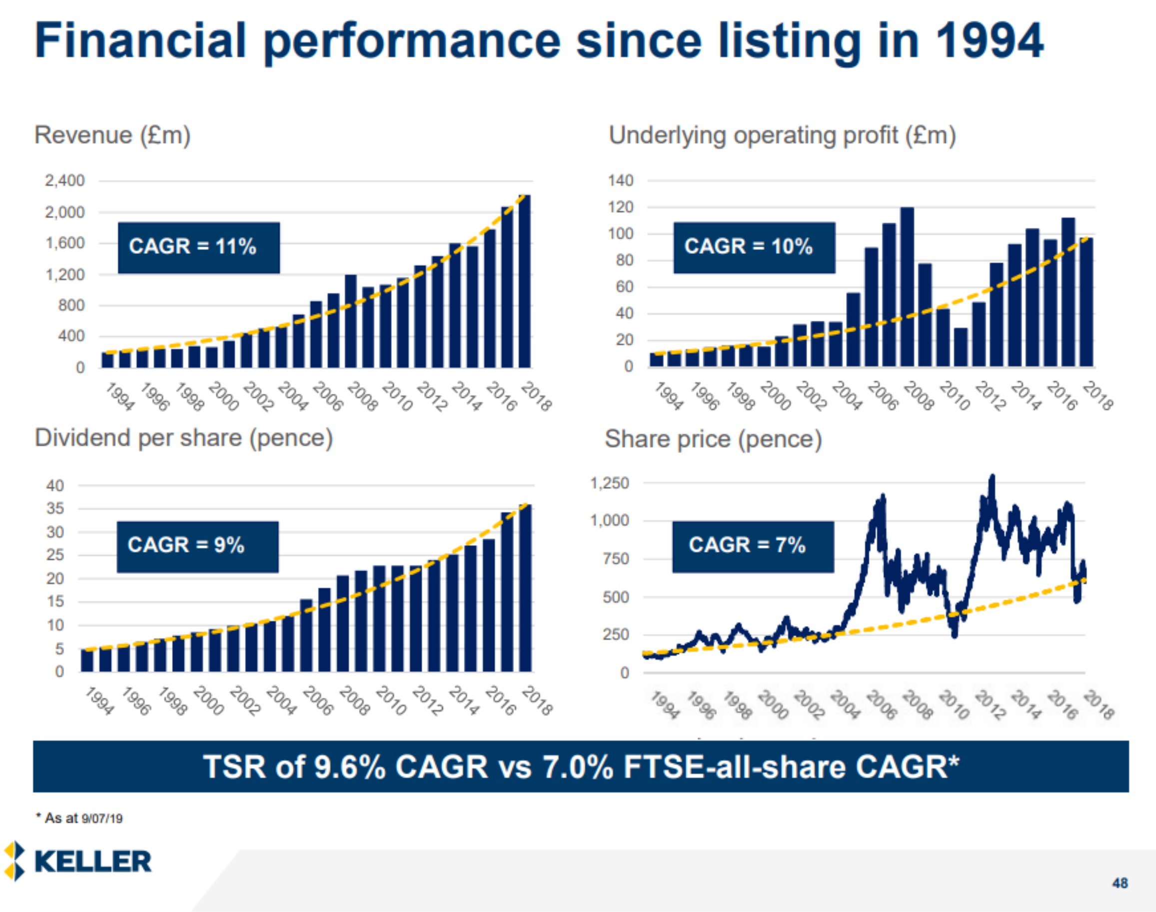
However, at a 6% yield and a PE ratio of 6 this could be interesting.

Do I want to invest in real estate, new real estate in Europe and Asia and US. Given the demographics, it might be tricky, however, you also need to replace old with new.

It is really interesting – BUT, too much Europe for me here – I am trying to avoid it over the next 20 years, which is what this company is about ☹ Doesn't mean anything bad, just that growth might not be 10%, but 5% and returns to follow consequently.

Previous content:

Keller Group plc is a large independent geotechnical solutions specialist.



This is the reason for the fall.

https://www.proactiveinvestors.co.uk/companies/news/206882/keller-group-under-a-cloud-after-it-warns-on-profits-206882.html

this could be a gem do dig deeper in.

Menzies (John) plc – MNZS –

This could be a long consolidation game with low margins until the industry doesn't stabilize. Too risky given the debt.

Previous:

We have a video on this one, let's see what I think.

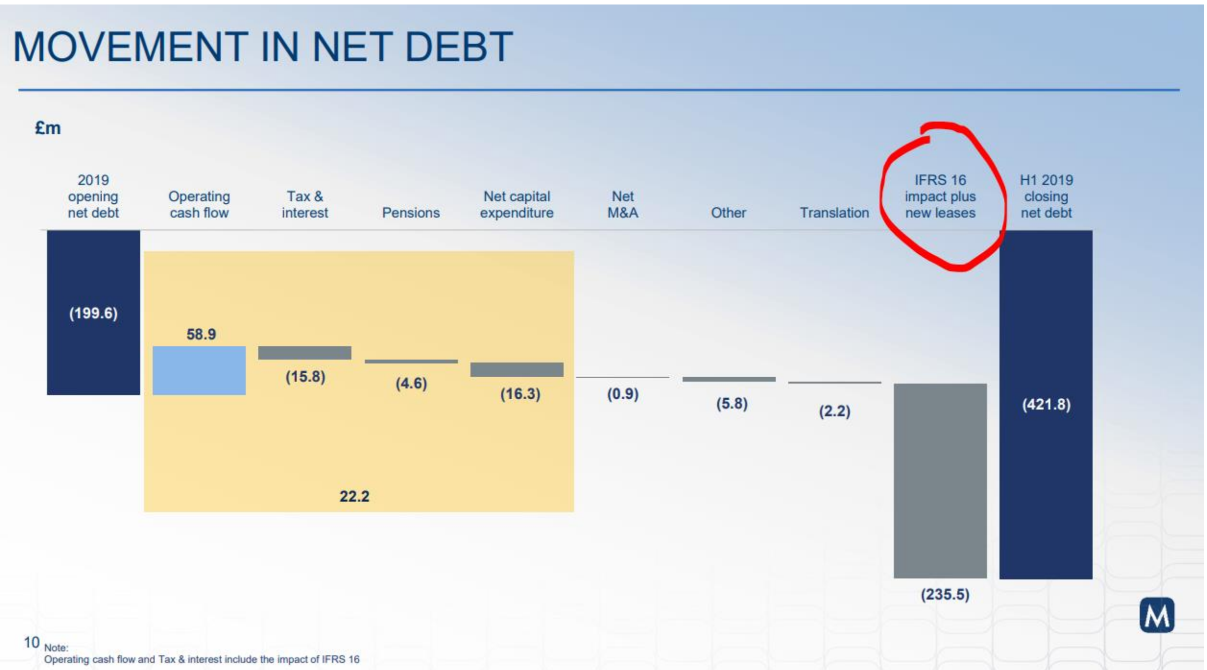
https://www.youtube.com/watch?v=OjHbA_JHxUk

The videos is about how a takeover is imminent. The stock hit its low there.

Could be a takeover but for me, the cash flows are negative, income is negative and debt is staggering. Thus, simply too much risk.

Net debt is at 35% of revenue.

I remember discussing leases when teaching Financial Accounting and how much debt can be hidden, happy to see the IFRS tackle that.



Boom, 235 million in more debt that wasn't on the balance sheet prior. This keeps EBITDA high but profits low.

It is an interesting business in an interesting market. Likely acquisition in consolidation process.

Norwegean is a big part of revenue, expected to go bust soon. This could be a gem to watch, I am interested in how it will develop from a business perspective, to dig deeper. The problem is that current margins make a slowdown look terrible and risky.

MJ Gleeson plc – GLE

No debt, growing and will continue to grow.

Previously:

Finally, an 8 bagger.

Huge growth on low leverage targeting the affordable housing needs in the UK>

The fear is a recession as they want to double again. No debt practically, thus business model ok.

Looks like a good one. Could be a gem, even to just look at it for learning. Coming back.

Photo-me International plc – photo boots but a profitable business

High dividend, high earnings, but not only photo boots, also laundry business expansion. This could be a gem, a crazy one, but to dig deeper. It is not the shabby photo boot you see when you exit your metro.

RESULTS SUMMARY:

	Reported			At constant currency	
	2019	**2018**	**Change**	**2018[1]**	**Change[1]**
Revenue	£228.1m	£229.8m	-0.7%	£230.0m	-0.8%
EBITDA (excluding associates)	£69.7m	£71.0m	-1.8%	£70.9m	-1.7%
Underlying profit before tax[2]	£44.1m	£46.8m	-5.8%	£46.8m	-5.5%
Reported profit before tax	£42.6m	£50.2m	-15.1%	£50.0m	-14.9%
Profit after tax	£31.3m	£40.3m	-23.3%		
Cash generated from operations	£63.9m	£61.0m	+4.9%		
Net cash[3]	£16.3m	£26.7m	-38.8%		
Earnings per share (diluted)	8.26p	10.60p	-22.1%		
Total dividend per share	8.44p	8.44p			

[1]2018 trading results of overseas subsidiaries converted at 2019 exchange rates.

Interesting, but going into fruit and laundry – definietely no margin of safety there. Interestingly, the stock has been listed on the LSE since 1962😊 Didn't go far.

No moat business.

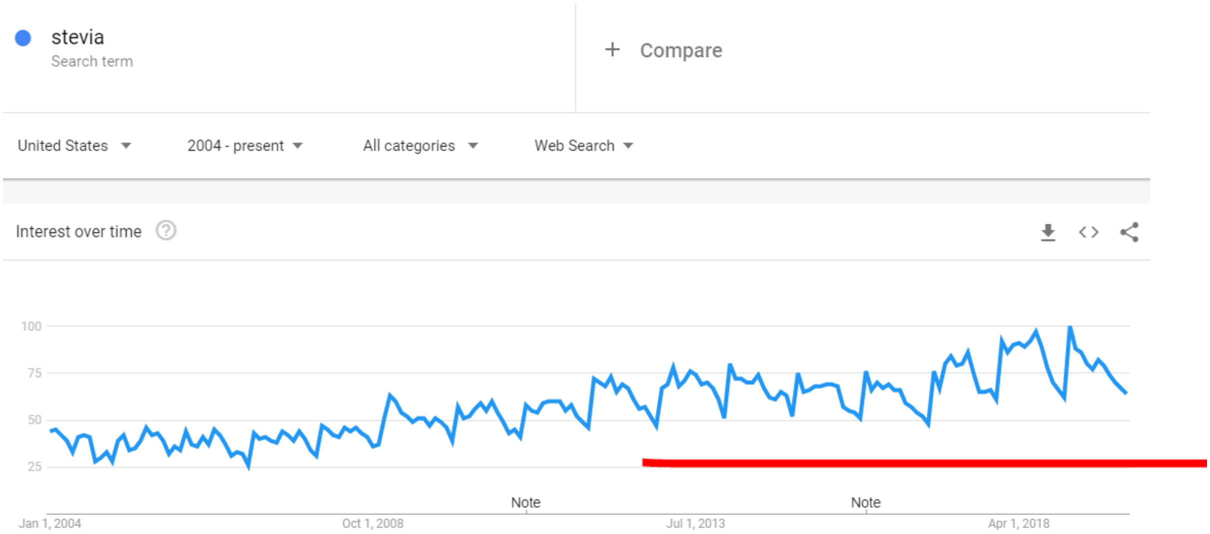
PureCircle – stevia

There was a stevia boom and bust, probably like with marijuana stocks.

Postponing reporting the annual reports – auch. Could be, could not be something, simply impossible to know.

PureCircle is the world's leading producer and innovator stevia sweeteners for the global food and beverage industry. PureCircle has offices around the world, with the global headquarters in Chicago, Illinois.

Stevia is still growing in search in the US



Could be a gem.

The total number of voting rights is 184,454,951.

Spire Healthcare Group plc – SPI - interesting

Spire Healthcare Group plc is a United Kingdom-based independent hospital group. The Company provides in-patient, daycase and out-patient care from approximately 40 hospitals, 10 clinics and over two specialist care centers across the United Kingdom.

Another IPO gone bad, or just started on too high expectations. However, this could be a gem to follow. To came back.

DEBT has been increasing with revenue flat. EPS is low due to high debt and leases. Staff cost is an issue.

Stobart Group Ltd

https://www.telegraph.co.uk/travel/comment/southend-airport-fastest-growing-best/

They acquired 30% for FlyBE so that they don't leave Southend airport??

1.5 million passengers at the airport – they plan to get to 10 million, 5 million passengers to 2023. That should quintuple or triple revenue respectively, and get to high profits.

Dividend has been cut for growth. 2023 EBITDA target is 8 million.

https://www.proactiveinvestors.co.uk/companies/news/907045/stobart-group-looks-to-up-investment-in-growing-southend-airport-907045.html

growing into energy that should start delivering cash.

Stansted 35 million per year, Gatwick 46 million, luton 16 million, city – 5 million , heatrow – 78 million.

Risks:

3rd Heathrow runway

STANSTED ALLOWED TO GROW TO 43 million people!

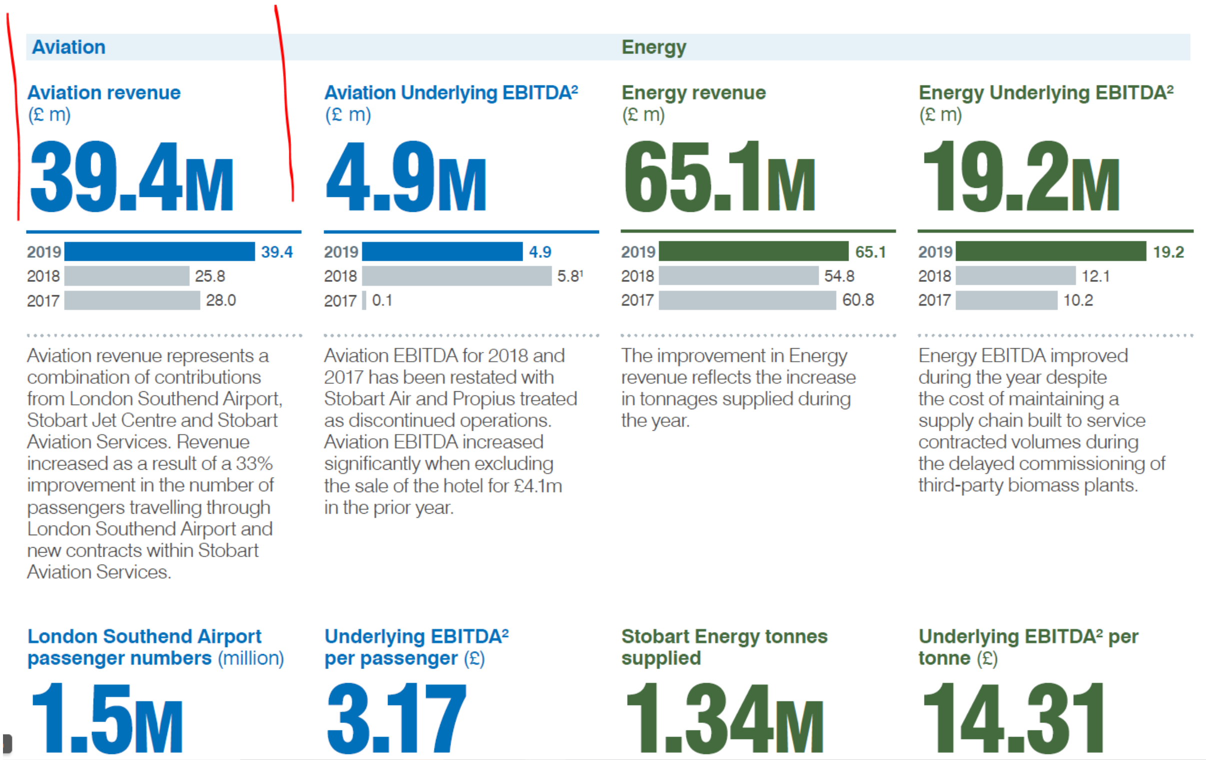
Gatwick has a standby runway that could be used if necessary.

2023 5 million, then 10 million and then 20 million passengers - https://www.youtube.com/watch?v=b0HicgEh5WU

https://airportsinternational.keypublishing.com/2018/12/20/10-million-upgrade-to-london-southend-airport-runway/

no dividend until 2023 at least – bad for a dividend payer.

https://www.independent.ie/world-news/southend-airport-owner-scraps-dividend-to-focus-on-expansion-38691772.html



They own the Southend airport close to London. Plus waste management. Then they sold Eddie Stobart a few years ago that will now go bust probably, also due to poor accounting, so we will see how it impact them and whether they will help it.

They have been losing money over the last years.

https://www.theguardian.com/business/2019/aug/23/eddie-stobart-suspends-trading-shares-accounting-error

this could be a gem, to dig deep and look at the details.

This is something I could understand well, follow and make a cash flow estimation of the business. Plus, I like the fact they cut the dividend.

Vitec's strategy is to focus on the "image capture and content creation" market.

I THOUGHT THIS IS SOME SPECIAL TECHNOLOGY but it is just accessories around the camera – so, nothing spectacular.

COULD BE A GEM – look into what they do

Vitec operates in the fast moving and growing “image capture and content creation” market. The overall market is an attractive one, with growth driven by the proliferation of image capture and sharing among an ever increasing number of content creators.

In 2018, Vitec delivered a record financial performance despite some unexpected challenges. We made significant progress implementing our strategic priorities which resulted in organic growth, improved margins and good cash generation.