

# FINANCIAL REVIEW

- Nov 30 2017 at 11:00 PM
- Updated Dec 1 2017 at 10:13 AM

## Starbucks, WD-40 and News Corp: Fundies name bargain picks



Nikki Thomas, from Magellan Asset Management, speaking at the Future Generation Investment Forum in Melbourne. Jesse Marlow



by Jessica Sier

In a world where passive investing has stolen much of the active stock picker's glory, Melbourne was treated to some of the more creative and out-of-the-box investment ideas from top fund managers at the Future Generation Investment Forum on Thursday.

Value investing was the order of the day, as bargain businesses involved in everything from mental health research to Californian oil spray were presented to a crowd of 800.

The eyebrows of Melbourne coffee lovers were raised as Magellan's Nikki Thomas pitched Starbucks as a business that could generate decades of double digit growth with strong cash attached to it.

"Something that's a bit addictive is wonderful when you're selling products," Ms Thomas told the crowd, pointing out the incredible profitability of each individual store means return on investment is up around 50 per cent.



Generations. Jesse Marlow

Louise Walsh is the chief executive of Future

With five stores for every 5 million people in China, and strong demand for its product, she argued a jittery market – concerned with mildly slowing store sales growth and a leadership change – was missing the explosive growth opportunity that a mature company like Starbucks, with an established formula, could deliver.

[View all announcements](#)

A harrowing video showing blocks of Victorian apartments ablaze illustrated David Prescott, from Lanyon Asset Management's, tip that ASX-listed Global Construction Services was poised to capitalise on a national wide building overhaul.

The highly flammable aluminium composite cladding that wraps around thousands of Australian buildings is undergoing a nationwide audit, said Mr Prescott.

Should a drastic overhaul of existing cladding emerge, GCS – which owns one of the top two players in cladding, after buying a business in 2014 now known as Gallery Facades – is likely to have thousands of new customers.

The stock currently trades at 88¢ but could easily rocket higher to above \$1.20, said Mr Prescott.

There was a peculiar scent in the air after Douglas Tynan, from VGI Partners, punctated his pitch with sprays from a can of WD-40, an industrial lubricant.

Mr Tynan argues the company is at the very early stages of creating new brand extensions that will not only spread throughout China but also endear those who painstakingly care for their bicycles.

An asset-light business model, WD-40 mixes their proprietary secret formula in-house, then puts the famous WD-40 badge on the can and sells a high quality branded spray.

The company's stable long-term growth is attractive to VGI Partners, which also believes it could be ripe for a takeover.

But the most surprising stock idea came from L1 Capital's Mark Landau, who explained how News Corp offers investors an earnings bargain.

Mr Landau argued Rupert Murdoch's often unloved publishing business offers investors incredibly cheap exposure to online property plays.

News Corp owns a 62 per cent stake in REA Group, worth around \$6.4 billion, and an 80 per cent stake in Move, owner of Realtor.com, the second largest property portal in the United States, worth around \$US2 billion.

With \$US2.5 billion in cash, the combination of those assets give the company an \$11 billion valuation against a \$12 billion market cap.

Pointing to a suite of recognisable assets, such as The Wall Street Journal, The New York Post, Barrons and Dow Jones, Mr Landau said the combined EBITDA of those assets was \$1.2 billion.

"But the market valuation implied for those assets reflected in News Corp's share price is exactly the same at \$1.2 billion," he said. "So in truth, you can buy these assets today for 1x earnings."

The Future Generation companies provides shareholders with exposure to Australian and global fund managers without paying management or performance fees, and offers charities with a consistent and growing stream of annual donations.

Future Generations founder and veteran stockpicker Geoff Wilson named financial services firm Austock Group as his stock to watch; its shares jumped 7.1 per cent to \$1.20 on Thursday afternoon.

Follow us: [@FinancialReview on Twitter](#) | [financialreview on Facebook](#)