

The Sohn Hearts & Minds stock calls by the top investors revealed

- Andrew White, David Rogers
- The Australian
- 1:51PM November 18, 2017

At the Sohn Hearts & Minds conference held in Sydney on Friday leading fund managers from Australia and around the world share their best investment ideas to raise millions of dollars for medical research. Here are a selection of the top tips:

Peter Cooper

Stock Pick: TE Connectivity

Peter Cooper, the founder of Cooper Investors, says TE Connectivity, a US maker of sensors and connectors used to control vehicles and aircraft, is a high quality turnaround story with the potential to double its shareprice from \$US93 to \$US180 in a year. The company has revenue of \$US13bn but margins of 16 per cent versus industry peer Amphenol at 20 per cent. There is a \$US700m (\$927m) profit opportunity in bridging that gap, according to Cooper. TE has exposure to the expected growth in car electrification, and the Asian middle class. While a standard combustion engine car has about \$US60 of electronics on board, a basic electric car carries \$US120 and a high-end Tesla up to \$US500. It does business in China where the middle class is on its way to passing the US population but has a far lower penetration of cars — 8 per hundred people versus 8 in 10 for the US.



Founder of Cooper Investments Peter Cooper. Picture: Jane Dempster

David Prescott

Stock Pick: NZME

In a world where value is hard to find, Lanyon Asset Management's David Prescott, is having a hard look at spinoffs and situations where babies have been thrown out with the bathwater. Kiwi integrated media outfit NZME — spun out of APN News & Media last year — is Lanyon's poster child of in terms of undervalued offspring. While the company is tangled in a rejected merger proposal with Fairfax that is being appealed in the NZ High Court, Mr Prescott says the market remains overly focused on the unlikely tie-up and underappreciates its prospects as a standalone that might co-operate with Fairfax. He says NZMe has "unrivalled" reach in its core audience and that recent falls in ad revenue are set to moderate and it gains digital subscribers. Lanyon values NZME at \$1.15 a share — 6.5 times cash flow. Even if the High Court blocks a merger between the two, he sees valuation over \$1.40 should it realise co-operative opportunities with Fairfax.

Mike Messara

Stock Pick: GrubHub

Countering the almost universally positive attitude to Amazon, Caledonia co-chief investment officer Mike Messara tipped a stock that has withstood its onslaught in the burgeoning convenient food market. GrubHub from the US has had near 100 per cent customer loyalty and grown sales by \$US1.5bn in three years to be the only food delivery business turning a gross profit. Its shareprice has been under pressure from the entrance of Amazon Ito the market but the feared online commerce giant has grabbed sales of just \$US75m over the same period. Mr Messara said GrubHub was backed by online growth and millennials eating out more often than they prepared food at home. The addressable market was growing from \$US75bn for independent restaurants, with another \$170bn in food chains. And the penetration was expected to increase from 10 per cent to 50 per cent, based on the trajectory of companies in industries that had experienced similar disruption.



Michael Messara, the co-chief Investment Officer at Caledonia. Picture: Hollie Adams

Blake Hendricks

Stock Pick: Reliance Worldwide

Macquarie High Conviction Fund's Blake Hendricks sees a 50pc upside in Reliance Worldwide because it is oversold on concerns about its relationship with the two biggest US home renovation businesses. Reliance has invented a connection system for pipes that reduces the time to fit out a two-bedroom house from 6.5 hours to 1.56 hours. That advance will make it compelling in the US where the average plumber is in their late 50s and numbers are expected to slump from 500,000 to 380,000. "The plumbing industry has a problem and Reliance can solve it," Hendricks says. The stock has been sold off on concerns that it could lose its contract with the US's biggest hardware chain Home Depot, after it started to sell product to Lowe's. But Hendricks said there is a strong probability it will hold on to both contracts. "I believe the best opportunities are when markets price possibilities rather than probabilities."



Blake Hendricks of Macquarie Asset Management.

Geoff Wilson

Stock pick: Virgin Australia

Wilson Asset Management founder Geoff Wilson tipped airline company Virgin Australia as a stock whose potential had been ignored by Australia's major institutional investors. "It's a large Australian company which has been almost forgotten," he said. He said Virgin, which had more than \$5 billion in revenues and a market capitalisation of \$1.9bn was in the same position today as Qantas was three years ago when it was turning around. Wilson said the Qantas share price was five times what it was three years ago. He said Virgin had been reducing its debt and had announced plans last year to reduce costs by more than \$1bn

over the next three years. “For the next year and a half Virgin is in an earnings upgrade cycle”. He said the airline had two major Chinese companies as shareholders and was placed to take advantage of the Chinese tourism.



Geoff Wilson, chairman of Wilson Asset Management at the Hearts & Minds Conference. Picture: Hollie Adams/The Australian

Tim Carleton

Stock Pick: Macquarie Group

Coming within an inch of the \$100 club earlier this month, Macquarie’s share price may have hit resistance, but Auscap Asset Management’s Tim Carleton remains bullish. Macquarie’s asset management credentials are too often overlooked by a market that gives disproportionate weighting to its standing as a bank, says Carleton, while strong return on capital, high cash flow, a sensibly geared balance sheet with capacity and positive performance based culture firms its investment appeal. Auscap also sees Macquarie’s residual business valued too cheaply after aligning Macquarie’s asset management arm to peer multiples and delivering a \$18 billion valuation versus its total market capitalisation of \$33.7bn, while further upside lurks for the core arm in the form of a global infrastructure boom together with an uptick in corporate and trading activity, both of which Carleton sees as likely outcomes.

Robert Luciano

Short call: Pandora

Danish charm bracelet company Pandora is set for a share price fall, VGI Partners founder and portfolio manager, Robert Luciano told the Sohn Hearts & Minds conference yesterday. Luciano said the company, listed on the Copenhagen Stock Exchange, was operating on “super normal margins”, which were higher than luxury brand companies Tiffany and Louis Vuitton. He describes Pandora bracelets, where people can add to the bracelet with additional charms, as a “fad product which is in the early stages of unwinding.” The company’s sales growth had slowed down while several key executives had left the company recently, he noted, adding there had been several “red flags” that were “negative leading indicators”, including a reduction in disclosure about sales details and the fact that it was starting to discount its products. He said luxury brand companies never discounted their products as it destroyed their “brand equity.”



Robert Luciano, managing partner at

VGI Partners. Picture: Hollie Adams

Philip King

Short call: JB Hi-Fi

Regal Funds Management's Philip King cited electronics retailer JB Hi-Fi as a shorting opportunity, predicting years of pain ahead as the US online retailer Amazon enters the Australian market. Up to 60 per cent of the retailer's profit could disappear in the next five years because Amazon aims to match price on branded goods and beat competitors on unbranded items, King said. "The issue for JB Hi-Fi is that 20 per cent of sales come from accessories but 40 per cent of margins and they will be decimated". King said he was surprised by the complacency of retailers and their shareholders, noting Amazon had created a core of loyal customers that delivered it more than half of the growth in online retail spending. "Amazon has never been stronger. It will be a trusted brand from the day it arrives in Australia. ...JB Hi-Fi won't go broke but there are years of pain ahead."



28/09/2016. Phil King, chief

investment officer of Regal Funds Management. Picture: Britta Campion