THE MANUAL OF IDEAS ™

Value-oriented Equity Investment Ideas for Sophisticated Investors

A Monthly Publication of BeyondProxy LLC ⁕ Subscribe at manualofideas.com

"If our efforts can further the goals of our members by giving them a discernible edge over other market participants, we have succeeded."

Investing In The Tradition of Graham, Buffett, Klarman

Year VII, Volume XI
November 2014

When asked how he became so successful, Buffett answered: "We read hundreds and hundreds of annual reports every year."

Top Ideas In This Report

Also Inside

About The Manual of Ideas

Our goal is to bring you investment ideas that are compelling on the basis of value versus price. In our quest for value, we analyze the top holdings of top fund managers. We also use a proprietary methodology to identify stocks that are not widely followed by institutional investors.

Our research team has extensive experience in industry and security analysis, equity valuation, and investment management. We bring a "buy side" mindset to the idea generation process, cutting across industries and market capitalization ranges in our search for compelling equity investment opportunities.

THE EUROPEAN VALUE ISSUE

- Exclusive Insights into European Investing
- Browsing 1,000 European Equities
- 20 Companies Profiled by The Manual of Ideas Research Team
- Proprietary Selection of Top Three Candidates for Investment
- Interviews with Florian Schuhbauer and Don Fitzgerald
- 10 Essential Screens for Value Investors

European equities analyzed in this issue include Air France KLM (AFLYY), ArcelorMittal (MT), Bank of Ireland (IRE), BASF (BASFY), BG Group (BRGYY), CGG (CGG), Constellium (CSTM), CTC Media (CTCM), DSM (RDSM... Navigator Holdings (NVGS), N... OMV (OMVKY), SodaStream (S... Transocean (RIG)...

New Exclusi... in the MOI M...

(log in at www.m... or email support...

- Daniel Gladis...
- Frank Fischer ...
- Tom Russo on Inv...

Inside:

Exclusive Interview:

Don Fitzgerald, Fund Manager, Tocqueville Value Europe Fund

With compliments of The Manual of Ideas

Exclusive: Don Fitzgerald on Vinci, BMW, and More

We're pleased to share the following Q&A with Don Fitzgerald, fund manager of the Tocqueville Value Europe Fund, based in Paris. Don selects stocks on a bottom-up basis, supported by in-house research. Don graduated from Trinity College Dublin in 1996. He previously worked in structured finance and as an investor in distressed debt in Dublin, London, Frankfurt and Paris.

The Manual of Ideas: Where do you see value among European equities?

Don Fitzgerald: The recent weakness has thrown up some interesting opportunities among the companies perceived as slightly more cyclical. We've recently built a position in out-of-favor French concession and construction group **Vinci** [France: DG]. The group owns a portfolio of high-quality concessions: about half of the French tolled motorway network and about twenty airports in France, Portugal and Cambodia. This concessions portfolio accounts for the bulk of the value of the group. A smaller part of the group's value lies in its construction and contracting division, which has done well over the years but is currently facing a slow environment in its domestic French market and had some execution problems in the U.K. The group is shareholder focused, with employees and management holding 10% of the capital.

"Vinci [France: DG] owns a portfolio of high-quality concessions: about half of the French tolled motorway network and about twenty airports in France, Portugal and Cambodia."

MOI: Why do you think Vinci is out of favor?

Fitzgerald: Over half of the group's activity is in France and anything related to France is very out of fashion currently given the weak economy and political uncertainties. Some politicians have even made aggressive comments targeting the profitability of the French toll road operators like Vinci. This grabs headlines and puts pressure on the share price.

However, the legal contracts behind the French motorway concessions have been tested in court several times and, so far, Vinci has always come out on top. So, we don't feel the moat is under threat. The group's cash flow held up very well in the financial crisis and a large part of the cost base in contracting is variable, so we don't feel it's as cyclical as perceived.

MOI: How do you value Vinci's equity?

Fitzgerald: We look at it on a sum of the parts. We estimate the concessions are worth around EUR 35 per share and the contracting business is worth roughly EUR 20, versus a share price in the low EUR 40s. The headline P/E ratio is 12x, and EV-to-EBITDA is 6.5x. We feel that this is a case of the market "throwing out the baby with the bathwater" and you get paid a safe 4% dividend to wait.

MOI: What are your thoughts on **BMW**, one of your long term holdings?

Fitzgerald: We've recently added to BMW. We like it for several reasons. Their design guys really understand how to build cars people really want and their marketing guys know how to keep the brand desirable and sell at premium pricing. They've invested heavily in reducing carbon emissions, developing electric cars etc. and seem to be a step ahead of the competition in this respect.

A further competitive edge stems from the lowest cost of financing in the industry for the highly profitable and stable finance arm. In fact, the financing arm is a crucial part of the group that improves customer loyalty and provides a steady recurring profits stream, often underappreciated by the analyst and investor community. The company is focused on doing what it does best, as well as on long-term wealth creation, unlike the empire building of some other

German car-makers. The peak of the capex and R&D cycle is probably behind them, and the stock is about as cheap you'll find for a quality large cap cyclical.

Over the last ten years they've grown sales around 7% per annum almost entirely organically. Return on equity has been consistently around 15%, apart from 2008 and 2009 when the profits dived but the group still remained profitable and paid a dividend. Other large companies with a similar track record and prospects tend to trade at more generous multiples.

MOI: How do you think about **BMW**'s preferred [Germany: BMW3] versus ordinary shares [Germany: BMW]?

"We own the [BMW] preference shares, which trade on a P/E below 7x. They trade just above book value and pay you a growing dividend yield above 4%."

Fitzgerald: We own the preference shares, which trade on a P/E below 7x. They trade just above book value and pay you a growing dividend yield above 4%. The ordinary shares are a little more expensive around 9x earnings, which is hardly outrageous for a company with a solid moat and decent track record and growth prospects. Overall, we feel that the ordinary shares are undervalued too.

The discount of the preference shares relative to the ordinary shares can vary over time. It is currently around 25%, but during the eurozone crisis it hovered around 35% for some time. Clearly, the preference shares don't carry any voting rights, but the company is controlled by the Quandt family, so the voting shares in this case don't improve anything from a governance perspective. In any event, the Quandt family has proven to be reasonably fair with minority shareholders.

The primary reason for the discount is the liquidity. The preference shares trade about EUR 6 million per day, which is a lot less than the ordinary shares, but sufficient for our needs and in excess of many European midcaps that we look at. We see the position in BMW as a long term holding, so as long as the preference shares trade at a reasonable discount, we tend to privilege the preference shares for topping up our position.

If the discount narrows to historically low levels, we would consider switching into the ordinary shares. However, it's more important to spend time thinking about the health and prospects of the BMW group, and overall valuation, than the relative value between the two share classes.

MOI: Are there other examples of high quality European companies with multiple share classes or unusual corporate structures that offer value currently?

Fitzgerald: We're involved in **Henkel**, a German-listed company focused on the household products and industrial adhesives industry, and **Schroders**, which is a U.K.-listed asset management business. Both of these companies have multiple share classes which allow you to buy into slightly undervalued above average businesses at a 10- 25% discount to the more liquid share class.

European holding companies can also be a happy hunting ground. We recently exited a successful investment in **Exor** [Italy: EXO], which is a holding company controlled by the Agnelli family in Italy. Its principle assets are **Fiat Chrysler Automobiles** [Italy: FCA] and **CNH Industrial** [Italy: CNHI] in the agricultural equipment and trucks business. We started the position during the financial crisis by purchasing preference shares when the discount to net asset value was well in excess of 50%. Since then, the value of the underlying assets has risen, the preference shares were merged with ordinary shares on favorable terms, and the discount has narrowed to around 15%, so we recently exited. It turns out we might have exited a few weeks too early as Fiat just announced plans to monetize the value of Ferrari…

MOI: Don, thank you very much for sharing your current ideas and insights!

The Manual of Ideas research team is gratified to have won high praise for our investment idea generation process and analytical work.

"I highly recommend MOI — the thoroughness of the product coupled with the quality of the content makes it an invaluable tool for the serious investor."

—Tim Davis, Managing Director, Bluestem Asset Management

"Wonderful."

—Thomas S. Gayner, Chief Investment Officer, Markel Corporation

"We do similar work ourselves."

—Glenn Greenberg, Managing Director, Brave Warrior Capital

"The Manual of Ideas is a tremendous effort and very well put together."

—Mohnish Pabrai, Managing Partner, Pabrai Investment Funds

"Outstanding."

—Jonathan Heller, CFA, Editor, *Cheap Stocks*

"Very useful."

—Murat Ozbaydar, Soros Fund Management

"Very impressive."

—Shai Dardashti, Managing Partner, Dardashti Capital Management

"The best institutional-quality equity research to come along in a long time."

—Pavel Savor, Professor of Finance, Fox School of Business

"An extremely valuable resource."

—Guy Spier, Aquamarine Capital Management

"You are quickly becoming one of my must-read sources."

—Cory Janssen, Founder, Investopedia.com

Find Out What The Buzz Is About.

THE MANUAL OF IDEAS ™

WWW.MANUALOFIDEAS.COM