Appian Asset Management

Monthly Monitor

March 2021

If Public Investors Won't Recognise Value, Someone Else Will

When selecting equities for our portfolios we like to find stocks that are overlooked, under-owned and undervalued. Buying good companies which trade at discounts to their intrinsic value and to peers is sensible investing. Our view is that good companies won't stay undervalued indefinitely and that if public markets fail to properly value such assets then someone else will. Recent corporate actions underline this.

In the past five months, three of our holdings in the Appian Global Small Companies Fund were the subject of corporate actions which crystalised the value in these stocks.

The first was staffing firm CPL Resources, which had spent a decade trading at a discount valuation to other staffing stocks despite outperforming those peers in terms of earnings growth and strategic development. In November 2020, CPL agreed to be taken over by Outsourcing of Japan at a 36% premium. Outsourcing is also a staffing company and as a trade buyer, was able to see the value in CPL that participants in public equity markets had failed to recognise.

In 2018, Applegreen bought a majority stake in Welcome Break, the large UK operator of motorway service areas. While public markets initially supported this deal, Applegreen shares subsequently de-rated as some investors raised concerns over the price paid for the deal and the debt level associated with it. These concerns seemed odd in the context of infrastructure funds and private equity firms paying even higher multiples with more leverage for assets similar to Welcome Break and Applegreen. With public markets persisting to value Applegreen at an even lower multiple, the logical consequence of this played out. In December 2020, Applegreen was taken private by management in conjunction with private equity at an offer price which represented a premium of 48%.

In February this year, Total Produce announced its plans to complete a merger with Dole Foods with a view to relisting the enlarged entity on the US market, as US investors are likely to be prepared to value the group on a higher multiple than European markets. The proposed IPO price is circa 40% higher than Total Produce's pre-announcement share price.

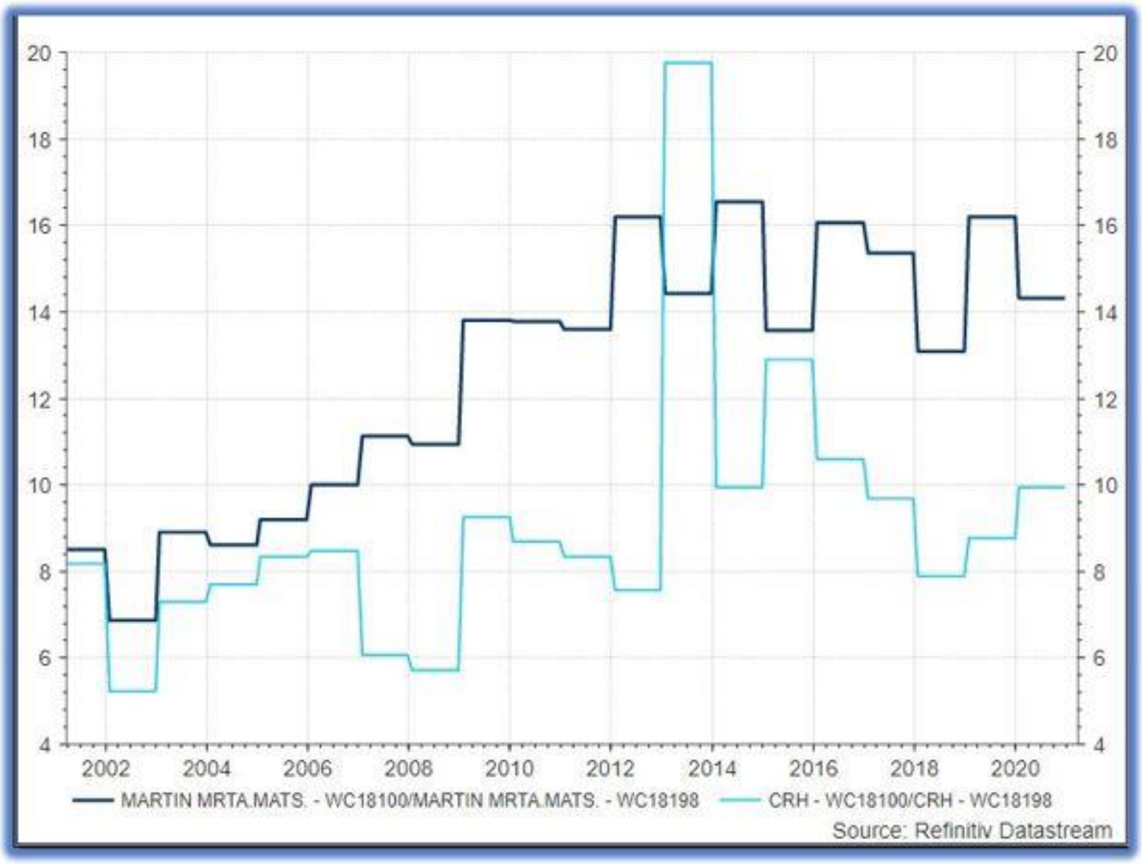
While the above three examples are small-cap stocks and co-incidentally they are all Irish companies, this undervaluation is not confined to smaller companies. It is broader than just being an Irish issue, although we consider it to be a non-US problem, as investors seem to be more prepared to place a higher valuation on US equities than non-US equities.

As an example. Ashtead, one of our large cap holdings, is a UK listed plant hire operator which generates over 90% of its operating profits in the US. It is currently subject to pressure from some of its investors to consider a relisting to the US, or a separate listing of its US business, as they believe that the shares would command a higher valuation multiple on US markets than it currently has.

Building materials giant CRH, another large cap Appian holding, earns over half its operating profits in North America. Like Ashtead, some of its shareholders argue that the group should consider relisting on US markets. The basis for this argument is that CRH's US peers persistently trade on a higher valuation multiple than CRH. This is illustrated in the graph below which charts the EV/EBITDA of CRH and Martin Marietta Materials, a US building materials peer of CRH, over the last 20 years.

Martin Marietta has traded on a higher multiple than CRH for most of the period with the current gap now 14x for Martin Marietta compared to 10x for CRH.

Chart 1 – 20 Years EV/EBITDA, Martin Marietta versus CRH



date: 29 March 2021

Regular readers will know we prefer the outlook for non-US equities over US equities in large part because the US valuation premium to non-US equities has widened over the past decade. As previously discussed, we expect this gap will narrow as investors recognise the more attractive valuation of equities outside of the US. However, if public markets fail to recognise the undervaluation of certain equities then the probability of corporate action arising to rectify this will increase. Either way, our view is that the more sensible starting position for investors is to be exposed to the stocks on the more attractive valuations.

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Appian AM NAV's Fund Prices 29-02-2021

NAV		MTD	QTD	YTD	SI
		%	%	%	%
AMAF	163.9105	4.37%	4.88%	4.88%	63.91%
AGDGF	215.5247	8.63%	8.37%	8.37%	115.52%
AGSCOF	206.9515	5.34%	7.96%	7.96%	106.95%
AIF	121.9934	2.58%	3.19%	3.19%	21.99%
AELF	102.8825	-	-	-0.17%	2.88%
ABPF	123.67	-	-	0.00%	23.67%

Appian Asset Management Limited is regulated by the Central Bank of Ireland.

Warnings

- **If you invest in any of the funds you may lose some or all of the money you invest.**
- **Past performance is not a reliable guide to future performance.**
- **Appian Funds may be affected by changes in currency exchange rates**
- **The value of your investment may go down as well as up.**

42 Fitzwilliam Place, Dublin 2. T: +353 1 662 3001 F: +353 1 661 9871 appianasset.ie