PVI – The Global Investment Newsletter

24th of November 2020

Continuous sector rotation

The last few days and weeks have been characterized by a strong sector rotation in the stock market. Out of (according to statistical key figures) highly valued tech stocks and other corona-rally winners, into classic value stocks, oil stocks, cyclical stocks, banks and emerging markets. The ignition for this was given by the positive news about the vaccines, which should be on the market in early 2021.
This sector rotation should continue, but indices such as S&P 500 and DAX should not continue to rise as the tech sector is now no longer a driving force. Perhaps our assessment from the last stock market letter was a bit too pessimistic and the markets can hold their own at these levels even with the rotation, as there is a lot of money in the market. However, we would be much more selective about the stock market than simply betting on rising indices. Setbacks are quite conceivable for the highly valued tech stocks, even so severe that the overall market could give way.

Precious metals

The correction in gold and silver has widened significantly in the past few days as the economic outlook has improved significantly as a result of the vaccine, triggering a sector rotation towards value stocks. The precious metals were simply overbought in the summer, as many US asset managers jumped on the trend here. These money managers move much more quickly in and out of assets and sell quickly as soon as the trend breaks. The classic physical gold buyers from the Middle East, India and China and also the Russian central bank have still stayed away from the physical gold market due to the economic crisis. Nevertheless, we see that the market could probably bottom out in the coming days and weeks, because the framework conditions speak too strongly for rising gold prices. With the coming economic upswing, inflation will also have to pick up somewhat - if only because of the base effect of 2021 compared to 2020. Oil prices and other raw materials will make a significantly positive contribution to inflation compared to 2020. We therefore recommend conservative investors to take advantage of the weakness in gold and silver and build up long-term positions here. Prices should develop very positively in the first half of the year.

Oil and gas

The oil sector ETF (iShares S&P 500 Energy Sector UCITS ETF (Acc), ISIN IE00B42NKQ00, WKN A142NX, for US investors: symbol XLE) has performed very well since our last recommendation. Investors should continue to see setbacks as a buying opportunity and stay invested for the longer term.

Chart iShares S&P 500 Energy Sector ETF (source: www.finanzen.net):

Trading recommendations:

Natural gas stocks
Peyto (Market Cap: 500 Mio. CAD, WKN: A1H5LQ, ISIN: CA7170461064, trade in Toronto)
We remain invested in natural gas stocks. Gas prices have come under pressure since early November due to warmer US weather, but found a possible turning point last week. The gas stocks were able to hold their own and even rose in recent days as a result of the sector rotation. From a fundamental perspective, Peyto is valued very cheaply with an adjusted PE-ratio of 4 - based on current gas prices. In addition, 70% of production is already hedged until autumn 2021, so that the short-term fluctuations in gas prices will hardly change the profit for 2021. In addition, from the end of 2021 important hedges (for supply contracts) will expire, which were rather unfavorably entered about 3 years ago. This should increase the adjusted profit by another 50%, since the deliveries can then be completed on better terms. The P / E would then decrease towards 3. The share price therefore has a lot of room for improvement. The stock remains in the model portfolio.
With regard to the currently warm weather, it should be mentioned that the weather phenomenon “La Nina” could provide for a colder winter - especially for the months of January, February and March. This would fuel gas prices in the USA strongly, as the market is in deficit in terms of supply. Gas futures prices could rise to over $ 4.

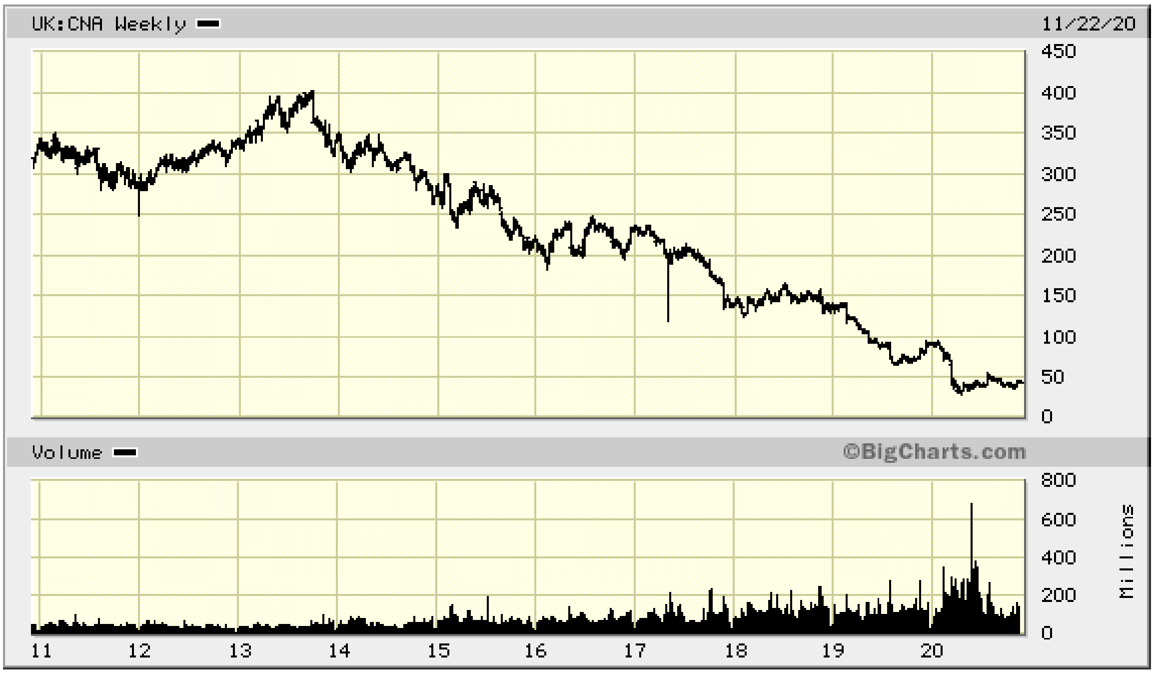
Buy: Peyto, current price: 3,15 CAD,

Target 5-7 CAD, time frame: 2 – 6 months, Stop/Loss 2 CAD

New recommendations:

Centrica Plc, price: 44.5 pence (market capitalization: £ 2.57 billion, WKN: A0DK6K, ISIN: GB00B033F229, trading in London)

In order to benefit from the further renaissance of the value segment, we are including Centrica Plc in the model portfolio. Centrica is a UK gas utility that supplies households and businesses. The core of the company is the old British Gas, which is No. 1 in the gas supply market. In recent years, however, Centrica has been run very poorly and the previous CEO tried to build a conglomerate. Acquisitions in the USA, a detour into offshore oil and gas fields, stakes in nuclear groups, all of this wasted the steady profits of the basic business and caused the share to slide from over 300 pence to 44 pence. In spring, the CEO was dismissed and replaced by the previous CFO. Since joining Centrica in 2018, he had been at odds with the former CEO and was ultimately able to win the power struggle. The new boss is clearly focused on shareholder value and has already sold the US gas supply business for £ 2.8 billion. Further asset sales are planned and will probably be able to completely pay off the Group's debts. All that remains is the pension burden, which still results from the monopoly position before the privatization by Margret Thatcher. A maximum pension burden of £ 12 billion is offset by assets saved of just under £ 10 billion. Should interest rates stay that low, the mathematically imputed net debt would amount to around £ 1.4 billion, but a smaller rise in interest rates could give the pension fund a mathematical surplus.



Source: www.bigcharts.com

The remaining core business of gas supply is a stable cash cow with longer-term supply contracts and generates an EBITDA of 1 billion pounds. Depending on the assumption of the sales proceeds of the remaining parts and the pension burden, this results in an EV between 4.3 and 5.8 billion pounds (EV / EBITDA multiples of 4.3x-5.8x). Peers are valued multiples over 12. The adjusted P / E ratio is in the range 4-4.8. Based on a valuation of just £ 10 billion (EV / EBITDA of 10), the stock should be trading between 120 and 140 pence.

The stock price should be driven by further asset sales, by a new investor road show and by immense cost reductions initiated by the new CEO. Due to the stable basic business and the low net debt, the risk here appears to be very low.

Buy: Centrica Plc (WKN: A0DK6K), current price: 44,5 pence,

Target 100 - 140 pence, time frame: 9 – 12 Months, Stop/Loss 27 pence

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Barrick Gold, price 23 USD (market capitalization: 43 billion USD, WKN: 870450, ISIN: CA0679011084, trading in New York)

Barrick is the largest gold producer in the world and is now almost debt free after a series of non-core asset sales. The share reacts strongly to the gold price, as production remains approximately constant and high free cash flows arise. The all-in mining costs are close to USD 1000, with a production of just under 5 million ounces this results in an operating profit of approx. USD 4 billion. If the gold price rises by 100 USD, the profit would rise to 4.5 billion USD. Since we are assuming an increase in inflation rates (driven by the base and catch-up effect) in mid-2021, gold should clearly be among the winners. We are therefore including Barrick Gold in the model portfolio.

Source: www.bigcharts.com

Buy: Barrick Gold, current price: 23 USD,

Target 30-35 USD, time frame: 4 – 8 months, Stop/Loss 16 USD

Current Model Portfolio: (starting value on 01/01/2020: 100.000 Euro)

YTD return: +24,47%*

50.000	**Euro Cash**
24.470	**Euro Peyto Inc (entry 11/11/2020: 2,85 CAD, currently: 3,15 CAD)**
25.000	**Euro Centrica Plc (entry 11/24/2020: 44,5 pence)**
25.000	**Euro Barrick Gold (entry 11/24/2020: 23 USD)**

124.470 Euro Total Value as of 11/24/2020

*the model portfolio assumes a flat tax rate of 25% on profits generated (tax is calculated after positions are sold)