Value Investor INSIGHT

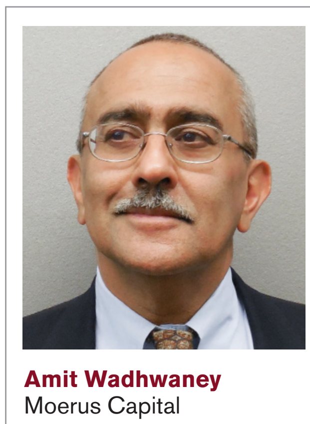
The Leading Authority on Value Investing

August 31, 2016

Here and Now

Despite finding the prose "somewhat turgid," Amit Wadhwaney credits Marty Whitman's *The Aggressive Conservative Investor* with sparking his interest in investing. "Marty describes the notion of buying things that are currently worth a lot more than you're paying for them," he says. "That had a pretty basic appeal."

Wadhwaney ended up working for Whitman, including thirteen years as manager of the highly successful Third Avenue International Value Fund. Last year he launched Moerus Capital with a similar deep-value approach to international investing. Today he sees opportunity in such diverse areas as South American retail, Asian warehouses, North Sea energy and Canadian uranium. See page 2



Amit Wadhwaney
Moerus Capital

MOERUS
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Moerus Capital Management LLC
212-461-4088
info@moeruscap.com
www.moeruscap.com

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Investor Insight: Amit Wadhwaney

Amit Wadhwaney, Michael Campagna and John Mauro of Moerus Capital describe why they focus on the balance sheet over the income statement, why risk avoidance needn't limit upside potential, what industry might be particularly ripe for trouble, and why they see unrecognized value in Almacenes Exito, Global Logistic Properties, Aker ASA and Cameco.

Your new firm started putting money to work last October. We're curious what types of things drew your attention first?

Amit Wadhwaney: We typically invest in businesses where the current and near-term outlook is exceedingly pessimistic. One example of that a year ago was gold-related securities, particularly the so-called streaming companies, which in return for putting up capital today buy a percentage of a mine's output going forward at discounted prices. I've always considered it an interesting business model, but gave up on buying anything because the companies' share prices were maddeningly expensive. But roughly a year ago a streaming company called Royal Gold [RGLD] had seen its stock start to tank because a particular mine providing it a large production stream was in danger of shutting down because gold prices had fallen so low that operating the mine had become uneconomic. If that happened, Royal Gold's earnings would fall quite short of expectations, all of which caused considerable hand-wringing among investors.

Our view was somewhat different. Royal Gold held a senior claim on the mine in question. Even if the mine shut down and the company operating it went into reorganization, we expected the claim to survive relatively intact. If gold prices ever recovered, which we thought one day would happen, that meant revenue might shift from an earlier time period to a later one, but that Royal Gold would get the gold and be able to sell it at a nice profit. Given the cheapness of the stock at that point, it was attractive on that basis.

I'll give you another representative example. I had followed Almacenes Exito [EXITO:CB] for more than a decade. It is the largest retailer in Colombia, catering primarily to the country's middle class. It has a pristine balance sheet and the kind of stingy management I like. You'd see that in the offices, which had a lot of linoleum floors, Formica tabletops and crackling fluorescent lights overhead. But the stock always seemed to trade at a 23x P/E, which was indigestible for me.

Then things got complicated. Last July Exito's majority shareholder, the French retailer Groupe Casino, sold to Exito its stake in the big Brazilian retailer Grupo Pão de Açúcar, or GPA, which has significant operations in both Brazil and Argentina. There may have been some strategic rationale behind it as well, but it appears Casino needed to upstream some cash from Exito and this was one way to do it.

So what happens? Exito goes from a simple, clean Colombian retailer to a much bigger company with more than half its sales in Brazil and Argentina. Colombian pension funds that loved Exito no longer want to own it. Brazil is a mess, Argentina is a mess, and with oil prices floundering, things aren't great in Colombia either. The stock declines 50% over several weeks, which pushes it out of the MSCI Colombia Index, which adds to the downward pressure on the stock.

We're often attracted to complexity and turmoil, both of which were in clear evidence here. We concluded that everyone was seeing only one side of the story. Granted, the optics of a transaction with your parent never look good, but if you look closely at what Exito paid relative to what it's getting, assuming Brazil actually has a future, this could be a more than decent deal for Exito.

You describe your approach as investing "based on what is known here and now." Elaborate on that.

AW: We typically take an asset-based approach that is akin to liquidation analysis. What's a business worth today if it wound up its operations, shut its doors, liquidated its assets, and paid off whatever debt

Amit Wadhwaney

Keeping Your Marbles

As a chemical engineer living in Montreal in 1980, Amit Wadhwaney had been accepted to the University of Chicago's business school but didn't then have enough money to pay for it. There was much ado in Montreal at the time as the province of Quebec – in the Brexit of its day – was planning a referendum to separate from Canada. One result of the uncertainty surrounding the referendum was a tanking of real estate prices, which allowed Wadhwaney to team with friends to buy an apartment building near his work. The $6,000 he invested was most of his savings at the time.

As it turned out, Quebec didn't secede from Canada and Wadhwaney less than 18 months after his original investment – putting in no additional cash – sold his ownership share, more than doubling his money and providing the resources necessary to head off to business school and learn about efficient markets. The lasting lesson? "I thought, if you can in the middle of all the hue and cry not lose your marbles when everybody else is and purchase something that you on your own determine is obviously cheap, and do that over and over again, that's a pretty interesting way to make a living."

and other liabilities it owed? We try to arrive at this estimate using conservative assumptions of what the assets might fetch from a knowledgeable cash buyer in a "normal" environment, in which the sale is neither overhyped nor forced. We believe this is a more conservative approach that mitigates downside price risk.

It also reflects our intent to minimize in estimating intrinsic value the importance of assumptions or guesses about the future, simply because we're skeptical of our – or anyone's – ability to recurrently forecast accurately. In our experience all forecasting is heavily biased towards the extrapolation of recent trends. As oil prices generally ranged between $80 and $105 per barrel for the better part of the current decade, how many economists and investment analysts warned about the sustained, dramatically lower prices to come – until, of course, prices started to collapse?

The same tends to be true in estimating earnings or cash flows. If Company A has grown earnings per share at 10% annually over the past three years, future estimated growth rates tend to be very similar looking forward. That may or may not be correct, but we're skeptical in valuing companies based on such forecasts because, one, valuations based on recent growth usually mean you "pay up" for that growth, and two, historical results aren't always indicative of future results. What if a new competitor gains ground, or technological change two years down the road erodes Company A's competitive advantage? If you base your valuations on optimism that past results will continue into the future, we believe you expose yourself to greater downside than if you base your valuations on conservative estimates of current, as-is asset-liquidation values.

We've read your critiques of discounted-cash-flow analysis.

AW: DCF analysis makes perfect sense theoretically, but like most academic concepts the end result is heavily influenced by the assumptions that go into it – and there are many assumptions. An estimate of future cash flows must either explicitly or implicitly incorporate a forecast of revenues, operating costs, capital expenditures, taxes and interest expense years into the future. The discount rate used is a function of numerous additional assumptions. The upshot is that relatively small changes to either set of assumptions can result in meaningful changes to estimated intrinsic value. If those assumptions prove overly optimistic over time, the downside risk for investors is considerable as intrinsic-value estimates get adjusted downwards.

ON CATALYSTS:

If we're comfortable with the risks, we want to buy cheaply enough that any number of good things can happen.

In focusing so heavily in minimizing downside, do you limit upside as well?

AW: We don't believe so. Take as an example Company A trading at a 30% discount to an intrinsic value estimate based on liquidation value, versus Company B trading at a 30% discount to an intrinsic value based on projections of future cash flows. In addition to being much more conservative and protective on the downside, we believe Company A is far less likely to have many optimistic scenarios – say, meaningful growth in earnings or cash flows, an unanticipated industry or geographic recovery, or a sale of assets at a premium – priced into its shares. Were any of those to actually happen, we believe the upside for such a discount-to-asset-value company can be significantly higher.

We touched on this in a way in our conversation about real estate company Sino Land [83:HK] [*VII*, November 30, 2015]. The company has been hoarding cash – it is one of the few companies in Hong Kong that have been net sellers of assets over the past couple of years – and buying back its shares rather than pushing growth in a business likely at the top end of the cycle. As a result, we felt we were able to buy the shares defensively cheap relative to underlying asset values, and then there was a further discount at the holding company level. That protects us on the downside, but if and when the market corrects and Sino Land uses its uniquely strong financial position to its advantage, the upside to that over the long term is potentially impressive indeed. [*Note*: At HK$11.34 when the article appeared, Sino Land shares now trade at around HK$13.20.]

Michael Campagna: Given our approach, we focus very little on how the value we see will be realized. If we're comfortable with our assessment of the risks – no small feat – we like to believe we're buying cheaply enough that there are a multitude of things that can inevitably happen and cause the value to come to the fore. We don't spend a lot of time on exactly what those are and when they're going to happen.

In starting Moerus, did you adjust your field of play at all?

AW: Historically we've invested around the world in an unconstrained manner. That has not changed. If I were to make a distinction, we might put more emphasis now on less well-trodden areas. Our portfolio before tended to be developed-market focused, with emerging markets less important and usually in those on the cusp of being developed markets. We obviously will follow the opportunities, but at the margin we may be more active in emerging markets, including the Colombia's of the world that aren't as well developed.

I should point out, however, that the impetus is not to look for the higher potential levels of growth that attract many emerging-markets investors. For us, emerging markets represent another source of opportunity to filter out stocks trading cheaply to their net asset values.

You've put a lot of effort into explaining your framework for assessing risks. Can you give us the highlights?

AW: Once you identify unrecognized value, it's at least as important to identify

how that value might be impaired, lost or appropriated. Hopefully we've made clear that we try to reduce price risk by buying as cheaply as possible. That's a great start, but a deep discount in itself, while necessary, is not sufficient to provide an acceptable margin of safety. There are a host of additional risk factors, both internal to each individual business and external, that must also be carefully considered.

Internal risk factors include a highly leveraged balance sheet, the need for recurrent access to capital markets, inept or dishonest management, inappropriate corporate governance or the potential for self-dealing by control groups, and a whole host of business-model risks, say, embedded currency mismatches or over-reliance on acquisitions.

Then there are external risk factors that can permanently impair the value-building ability of the business, such as government intervention, industry structures without adequate impediments to new competition, and industries excessively prone to macroeconomic shocks.

Finally, we're attuned to avoiding undue risk aggregation at the portfolio level. Here it's important not to think in simple terms such as industry or geographic "categories." We have in the past had a significant portion of our portfolio in insurance companies, for example, which superficially might have appeared to constitute an excessive exposure. But the actual holdings were based in various jurisdictions such as the U.S., Japan, Norway, Sweden, the U.K. and Bermuda, operating in different regulatory environments, with different books of business, exposures, and dynamics. More important in assessing portfolio-level risk is mentally breaking down each individual business into its specific exposures, and then assessing the aggregations that might be of concern.

MC: We're going to discuss three businesses that on the surface seem pretty distinct, Almacenes Exito in South American retail, Aker ASA [AKER:NO], which is heavily invested in North Sea energy, and Global Logistic Properties [GLP:SP], a large owner and operator of distribution facilities, whose biggest market is China. These companies don't look alike, but when you dig into them each has a distinct exposure to Brazil. Exito just acquired a big business in Brazil. Aker is making a play in the offshore-service-vehicle [OSV] market, which is impacted by the trials and tribulations of Brazil's Petrobras. Global Logistic Properties has a substantial presence in Brazil. We have to explicitly recognize that level of collective exposure and then assess whether we're comfortable in taking it.

Do you hold cash as a risk mitigator?

AW: We represent to shareholders that we will have a portfolio of deeply undervalued securities. We never represent that we will be fully invested all the time. In our view holding cash in the absence of compelling opportunities is rational and simply sound investing practice, which does mitigate risk.

But cash also provides us with dry powder for use during the next version of the 1990s Asian financial crisis, or of the more-recent global financial crisis. I would emphasize that this dry powder is of little use if you're afraid to aggressively deploy it when dislocations do occur. On September 11, 2001, we happened to be around 30% in cash, and while it was a very unpleasant period, many stocks got very cheap, very fast. Two weeks after the market reopened we had only 3% cash. We'll hold cash, but we're also not shy about putting it to work when it's sometimes hardest to do so.

How many positions do you expect to hold at any given time?

AW: It's all opportunistic – you don't know where your next meal will come from – but we expect to own 25 to 50 positions. One constraint is that it's labor intensive to filter through investments as we hope to, arriving at what they're really worth and figuring out all the ways we can lose money. I'm not sure having more people will solve the problem. Ultimately there's a bottleneck, notably myself, in terms of truly understanding something and wanting to own it for a long period of time.

MC: Our number of holdings also reflects that we want each investment to have an impact on the portfolio. We sometimes follow companies for years without investing in them. When we get to the comfort level – and the pricing – required to invest, we want the benefit of that work to make a difference. If you can't envision at least a 2.5% position, one might question the wisdom of laboring away at it.

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Describe how you're assessing the "here and now" value of Almacenes Exito.

MC: We talked about the transaction, with Exito buying a controlling interest in GPA, cash going out the door, pension fund owners revolting and the stock cratering. When we step back, however, we see what is now the largest retailer in South America, with leading market share in Colombia, Brazil, Uruguay and Argentina. It has a nice mix of diverse store formats, with about 60% of revenues coming from groceries, which provides stability against both cyclicality and new online competition. Our view is that the company just became a lot stronger. As we've gotten comfortable with the fact that some time in the next ten years the Brazilian consumer economy is going to recover, this is a very attractive business that we believe we're buying at a dirt-cheap price.

Does the fact that Groupe Casino still owns 55% of the shares give you pause?

MC: Despite all the hand-wringing over the deal, we don't believe Exito was taken advantage of. Its balance sheet is still very strong and the price it ended up paying was attractive in a long-term context as it reflected some pretty negative economic dynamics in Brazil and Argentina.

We consider Exito management to be excellent operators, with the right incentives and a long track record of doing the right thing. We also believe the corporate-governance policies in place at the new company protect us against further deals with Casino being done at anything but arm's-length prices.

At a recent 14,300 Colombian pesos, how cheap do you consider the shares?

MC: The transaction closed at the end of August last year. If we adjust the financials to assume the deal was in place for the full year – making no normalization assumptions and no adjustments for integration cost savings – on trailing numbers you're buying the shares today at about 6.25x EV/EBITDA. We originally got in as low as 4.25x EV/EBITDA on the same basis.

If you compare this valuation to that of Wal-Mart de Mexico [WALMEX:MM], a company of similar size and with a similar position in its key markets, it's head scratching. Not that we think they're rationally priced, but Wal-Mart de Mexico's shares trade at 16x EV/EBITDA. That difference with Exito is immense, and to our mind clearly reflects a mispricing. If we assume some economic recovery in Exito's key markets and an EV/EBITDA multiple for it of even 8x – conservative given that Latin American retailers tend to trade at 10-13x – the share price would be in the 25,000 to 30,000 peso range.

As we mentioned earlier, we also like having other ways to win that we don't need to count on. The company is planning to spin out some of its real estate holdings into a new vehicle, which could unlock incremental value. It's also not ridiculous to assume that one day a bigger international retailer, like Wal-Mart, would see Exito as an attractive acquisition target. Again, these types of things don't have to happen for the value we see to be unearthed, but they can.

Describe the investment case in more detail for Global Logistic Properties.

MC: The company owns, operates and invests in warehouses and distribution centers. These are not dumpy little buildings scattered haphazardly around a region, but strategically located, state-of-the art logistics distribution facilities that a

INVESTMENT SNAPSHOT

Almacenes Exito
(Bogota: EXITO:CB)

Business: Supermarket retailer with more than 2,500 stores located primarily in Colombia, Brazil, Uruguay and Argentina; majority-owned by French grocery chain Casino.

Share Information
(@8/30/16, Exchange Rate: $1 = COP 2940):

Price	**COP 14,300**
52-Week Range	COP 10,020 – COP 17,300
Dividend Yield	4.7%
Market Cap	COP 6.40 trillion

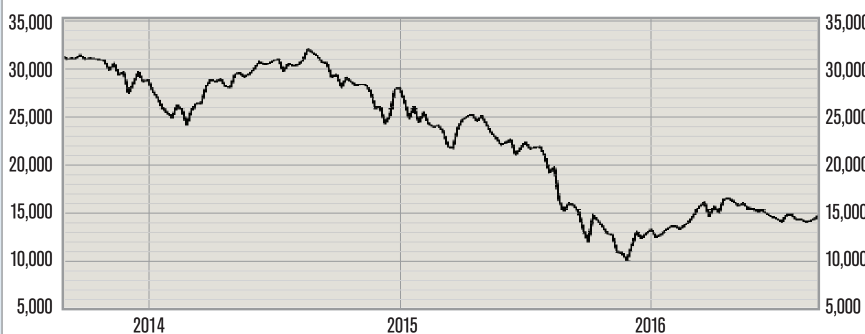
Financials (TTM):

Revenue	COP 48.85 trillion
Operating Profit Margin	3.0%
Net Profit Margin	1.0%

Valuation Metrics
(@8/30/16):

	EXITO:CB	S&P 500
P/E (TTM)	12.5	24.7
Forward P/E (Est.)	12.3	18.6

EXITO:CB PRICE HISTORY



THE BOTTOM LINE

Investors are too focused on potential negatives of a recent merger deal, when in fact the company is stronger and well-positioned to benefit from eventual improvement in its key markets, says Michael Campagna. Assuming some economic normalization and a below-average 8x EV/EBITDA multiple, he says the shares could trade above 25,000 pesos.

Sources: Company reports, other publicly available information

company like Amazon or a global multinational like GE might use to serve a large market. GLP's biggest market by far is China, where it's five times the size of the next-largest competitor. It is also the dominant player in Japan and Brazil, and the second largest in the U.S.

The company was born when ProLogis, the big U.S.-based competitor, needed to raise money and sold its Asian properties for $1.3 billion in 2008 to a unit of Singapore's sovereign wealth fund, GIC. In 2010, GIC took GLP public in Singapore at a $2.7 billion market cap, and GLP has been expanding its asset base since.

The business model spans the value chain. They source and develop properties. They manage properties. They have a fund-management platform, with some $36 billion in assets under management across 11 funds. All of this allows them to leverage their expertise and fantastic network of tenants across a much larger asset base, earning profits and fees at every step of the way. It's a very compelling model.

We assume you're paying a discount to what you think the assets are worth today, but what do you see driving growth in net asset value going forward?

MC: I would attribute it to a few things. First, the overall rise of e-commerce, which drives higher unit volumes that need to be efficiently distributed. Second, as markets like China and Brazil continue to develop, you'll see a dramatic shift in buying patterns that requires an upgrade in the distribution-facility stock away from old decrepit warehouses to the types of high-tech facilities in which GLP specializes. Third is just straightforward growth. GLP expects to grow its footprint by 8% this year, which is even somewhat less than the rate in the past couple of years. Cognizant of all we said earlier about extrapolating recent experience, the general growth prospects for GLP remain quite positive.

The shares, now around S$1.85, have hardly distinguished themselves over the past few years. How are you looking at the net asset value?

MC: The shares got as high as around S$3.10 in late 2013, but given the company's exposure to Chinese and Brazilian consumers, the market hasn't been too friendly to it since.

This is a stock we've followed for some time and always thought would be interesting if we could buy in at a discount to net asset value – not using current-market cap rates on properties, but average long-term cap rates over the last 15 years or so. On that conservative basis, we estimate NAV today at around S$2.10. If you make two adjustments, using current cap rates and assigning a reasonable peer multiple to the fund-management business, the NAV works out to be at least S$3.00.

If we're right about the long-term prospects of the business and can buy at a discount to conservatively estimated NAV, that strikes us as an attractive risk-reward proposition. A lot of things can go right from that starting point.

How do you assess here what could go wrong?

MC: The biggest worry is probably that China has some sort of dramatic economic reversal. Our feeling is that even if that does happen, growth in the Chinese middle class and in Chinese e-commerce will just be temporarily postponed. Those are long-term trends that are not going to go away.

GLP's structure should also help cushion it from any blows from economic dislocation. ProLogis got in trouble by using

INVESTMENT SNAPSHOT

Global Logistic Properties
(Singapore: GLP:SP)

Business: Develops, owns, operates and invests in a broad portfolio of warehouse distribution facilities located primarily in China, Japan, Brazil and the United States.

Share Information
(@8/30/16, Exchange Rate: $1 = S$1.364):

Price	**S$1.83**
52-Week Range	S$1.59 – S$2.39
Dividend Yield	3.3%
Market Cap	S$8.60 billion

Financials (TTM):

Revenue	$793.9 million
Operating Profit Margin	43.3%
Net Profit Margin	3.0%

Valuation Metrics
(@8/30/16):

	GLP:SP	S&P 500
P/E (TTM)	10.6	24.7
P/Book Value	0.7	n/a

THE BOTTOM LINE

Given its exposure to China and Brazil, the market hasn't been kind to the company's shares even though it should continue to benefit from important secular tailwinds, says Michael Campagna. Using highly conservative cap rates on properties, he believes the shares today trade at a solid discount to NAV – from which "a lot of things can go right."

Sources: Company reports, other publicly available information

its own balance sheet to fund most of its expansion. GLP is doing almost all of its expansion through funds, so the equity component of its spending is much larger and spread across multiple entities. If organic development growth goes from 8% to zero, it won't be great, but it shouldn't at all be life threatening.

Amit discussed a version of Aker ASA when we first spoke eleven years ago [*VII*, May 22, 2005]. What do you find attractive about it today?

AW: This is a holding company controlled by the Norwegian billionaire Kjell Inge Roekke, consisting of a collection of assets operating in energy and exploration on the Norwegian continental shelf, global oil services, shipping and ship building, and even some fisheries.

A number of important events have happened of late that intrigued us. One, they sold a salmon fisheries businesses at a very fancy price, bringing a significant amount of cash onto the balance sheet of the holding company. Two, taking advantage of the collapse in oil prices, their Det Norske E&P holding last June merged with BP's Norwegian unit, creating the largest exploration and production company in Norway. We think it was a very clever transaction, creating a company with an attractive production profile – including a massive new field coming on line in 2019 – and that has a tremendous amount of operating leverage to recovering oil prices.

The final transaction of interest was the recapitalization Aker participated in earlier this year of Solstad Offshore, a large player in the market for offshore service vehicles that provide transport to and from deep-water drilling platforms. This market has been in disarray, with massive overcapacity and many competitors in considerable distress. Aker is using its position in Solstad to try to drive consolidation in the industry and Solstad recently announced the purchase of a large competitor, Rem Offshore. If the industry consolidates and demand eventually returns, this could be a massive value creator. Solstad Offshore is less than 10% of Aker's current NAV, but it currently trades at around 15% of book value. It's not rash to assume that some day it trades again at book value. We think the safest way to potentially participate in that would be through Aker.

How discounted do you consider the shares at today's price of around 255 Norwegian kroner?

AW: If we take the current market values of Aker's listed holdings, many of which are priced like dogs given their energy exposure, that comes to NOK 375 per share in value. Debt of NOK 93 is bit more than the value of cash and unlisted holdings, so total net asset value is closer to NOK 370.

Assuming nothing happens in the businesses, you'd do quite well just from that gap to current NAV eventually closing. But what if Det Norske, Aker's largest holding, thrives both from increased production and some normalization of oil prices? What if the OSV market becomes more rational and Solstad is a key survivor coming out of the market's current distress? If something akin to these things happen, we can do even better than quite well.

Uranium producer Cameco [CCO:CN] has done a pretty good impression of a value trap over the past couple of years. Why do you think that won't be the case over the next couple of years?

AW: They say it's always darkest before the dawn, and it's entirely possible we're

INVESTMENT SNAPSHOT

Aker ASA
(Oslo: AKER:NO)

Business: Investment holding company specializing in energy exploration and services, fishing and shipping industries; controlled by Norwegian billionaire Kjell Inge Roekke.

Share Information
(@8/30/16, Exchange Rate: $1 = NOK 8.338):

Price	**NOK 256.00**
52-Week Range	NOK 133.50 – NOK 259.00
Dividend Yield	3.9%
Market Cap	NOK 19.03 billion

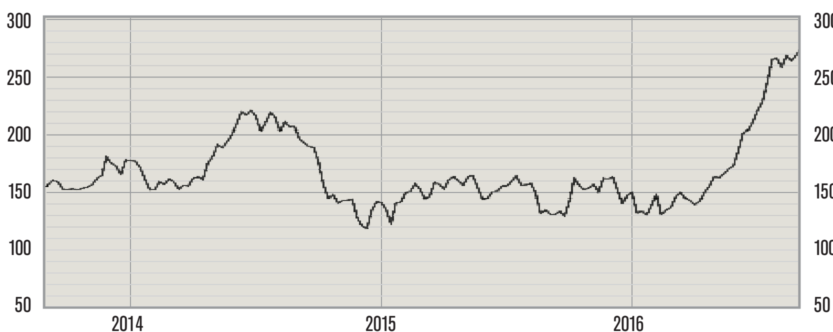
Financials (TTM):

Revenue	NOK 61.17 billion
Operating Profit Margin	6.4%
Net Profit Margin	(-2.7%)

Valuation Metrics
(@8/30/16):

	AKER:NO	S&P 500
P/E (TTM)	n/a	24.7
Forward P/E (Est.)	15.7	18.6

AKER:NO PRICE HISTORY



THE BOTTOM LINE

As befits an investment vehicle controlled by a billionaire, the company has been taking advantage of energy-market stress to consolidate key positions, says Amit Wadhwaney. The shares would rise 45% just from closing the gap to current net asset value, he says, with leverage to higher energy prices providing considerable potential upside from there.

Sources: Company reports, other publicly available information

headed into the pitch-black period with Cameco that may last for some time. But if one is willing to take a three-to-five-year kind of view, which we are, this is probably not a bad time to get involved.

The company in uranium is a mini-OPEC unto itself, with around a 20% market share in global production and very long-lived reserves. Uranium prices have been miserable, in no small part because the strength of the U.S. dollar has shifted entire cost curves down, allowing big uranium-producing countries like Canada, Australia, Khazakhstan and South Africa to supply the U.S-dollar-based market cheaply. Spot prices are now in the mid-$20s per pound range. Cameco can make money at those prices, especially now that it's completed a large capital-spending program, but it's not a healthy price level for the market. Cameco has actually cut back on output because prices have been so low.

In our view, low prices are fine in the short term because they flush out excess inventory and limit new production. Generally speaking, it's a difficult multi-year process to find new uranium deposits and bring them to market. Most identified deposits are quite uneconomic at these prices, so new supply is constrained.

So does the bull story from here rest mostly on your views about demand?

AW: That's obviously central to the case. While developed markets have been reticent to expand their nuclear-power bases, that has not been the case in developing markets. China is planning to triple its nuclear capacity from today through 2020, adding eight reactors per year, and then to add 10 reactors per year for the next decade, taking total capacity to 150 GWe [Gigawatts electricity] by 2030. India is moving ahead aggressively with nuclear ambitions. Russia's state-controlled Rosatom has made a big push to sell nuclear facilities in emerging markets and has about $110 billion worth of contracts underway, a level expected to increase to $190 billion or so over the next decade. All of that will drive significant uranium demand, which will only be heightened if Japan's nuclear plants restart as expected – after shutting down post the Fukushima disaster – and if countries like the United States and France start investing again in nuclear power.

How are you looking at valuation with the Canadian shares trading today at around C$12.20?

AW: Using consensus estimates for this year, the stock trades at an EV/EBITDA multiple of around 8x – and that is based on currently depressed profitability. A lot of bad news has been incorporated. But over time the demand side continues to build and the supply side continues to erode. If prices as a result were to rise, the company's currently mothballed production opens up again, the profit on each pound of uranium sold increases, and earnings rise very, very rapidly.

The risk here to us is less and less price risk, and more time risk. But the longer the current environment persists, the sharper the eventual price reaction will be. I have no idea exactly how and when this plays out, but historically on investments with similar characteristics we've been able to make multiples of our money. So tuck something like this away and you should probably do okay over time.

What's the worst that could happen?

AW: The company has a great balance sheet, so we don't imagine a leverage-

INVESTMENT SNAPSHOT

Cameco
(Toronto: CCO:CN)

Business: Canada-based developer, producer, refiner and fabricator of uranium that is sold as input fuel for electricity generation in nuclear-power reactors worldwide.

Share Information
(@8/30/16, Exchange Rate: $1 = C$1.311):

Price	**C$12.22**
52-Week Range	C$12.04 – C$19.32
Dividend Yield	3.3%
Market Cap	C$4.84 billion

Financials (TTM):

Revenue	C$2.50 billion
Operating Profit Margin	12.7%
Net Profit Margin	2.8%

Valuation Metrics
(@8/30/16):

	CCO:CN	S&P 500
P/E (TTM)	27.3	24.7
Forward P/E (Est.)	14.8	18.6

CCO:CN PRICE HISTORY

THE BOTTOM LINE

The company may be headed into a "pitch-black period" before the dawn, says Amit Wadhwaney, but as a market leader it should eventually prosper as a supply-demand imbalance drives prices of its uranium higher. Leery of making specific forecasts, he notes that in past investments with similar characteristics "we've made multiples of our money."

Sources: Company reports, other publicly available information

induced calamity. The outlier, really bad scenario worth imagining is that China does a Germany and decides – probably after a serious nuclear accident – to shut down its nuclear power plants. We don't think the chances of that are high enough to preclude our investing today, but that would be a big issue.

Are there any new areas you're starting to pursue for prospective ideas?

AW: We still have about 30% of the portfolio in cash, and while there are not broad swaths of things to do, in my experience there are always specific pockets of opportunity. First there were gold companies. Then we started looking at emerging-market companies in Colombia and Brazil. Today I'd say the broad area of resources beyond energy remains quite interesting to us. Agriculture-input businesses, with fertilizer being one example, appear to have gotten quite inexpensive and are worth a look.

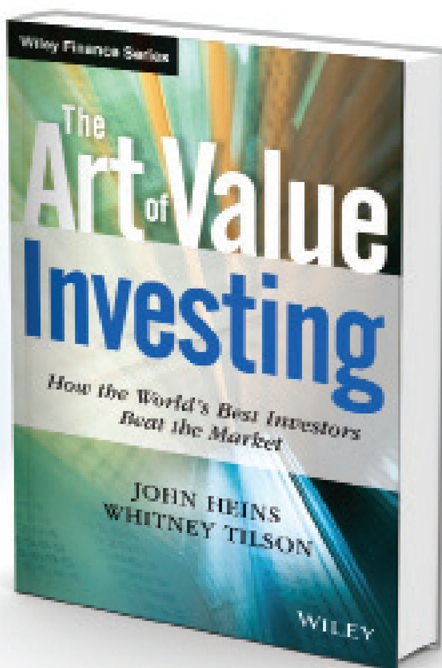
Because big sources of excess attract our attention, we're also looking closely at the investing implications of one absolutely glaring source of excess, which is that propagated today by central banks. Negative interest rates are going to hurt all kinds of companies, but one industry where the impact might be delayed is insurance, where yielding assets turn over much more slowly. When those assets do turn over and if they can't be replaced by anything with an adequate yield – notably in jurisdictions with negative interest rates – you're going to see some severe trouble for insurance companies. That may present opportunity.

It dawns on us that you haven't mentioned business quality yet as a key criterion for what you find interesting. That's rare these days.

AW: I'm not going to knock people who pay up to buy good companies, but it's something in the classic sense I've never been constitutionally capable of doing – and that's even more the case today. Sometimes things work and work and work, excesses develop, and then of course they don't work any more. We saw that in the highly leveraged "next-generation" pharmaceutical companies, and then there was a thud. We'll see where this focus on investing in high-quality companies leads.

We have to ask about your firm's name. Moerus is quite a mouthful.

MC: When we started looking, I had two requests, that we don't use a Latin word or the name of a Greek god. So much for that. When we came across Moerus, which is from classical Latin, it just perfectly exemplified what we were about. It describes the defensive walls built around a city to protect it and its inhabitants from risks, both predicted and unforeseen. It's maybe not the easiest to spell or pronounce, but it's a great conversation starter that helps us explain how we look at the world.



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