

# Why Whitehaven Coal's record rally has further to run

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*Robert Gregory is founder and portfolio manager at Glenmore Asset Management.*

## Does Whitehaven Coal's share price have further upside?

Future returns are likely to moderate from here following the huge rally in the last 12 months. Assuming continued, strong, cash flow generation, Whitehaven will continue **buying back stock** [<https://www.afr.com/companies/mining/whitehaven-share-buyback-could-top-2b-20220921-p5bjv7>] aggressively, which should support the stock price.

A potential risk to monitor for the thermal coal price is a fall in the natural gas price, which is a key competing source of base load energy.

In the coal sector, we also like Stanmore Resources for its quality assets and free cash flow generation and Bowen Coking Coal for its forecast in increase in production over the next two to three years.



Gregory is keeping a close eye on Nick Scali. **Eamon Gallagher**

### **Which holding in your Aussie equities fund is being underappreciated by the market?**

GQG is a US-based funds management business that has four key strategies that have all strong track records of outperformance relative to benchmark and recent inflows have been solid despite a tough environment for long-only equities managers.

Whilst not part of our core investment thesis, given GQG's strong brand name and marketing infrastructure, there is clear potential to add more investment strategies, however, this remains difficult to predict.

GQG's valuation is attractive, trading on an FY23 price-to-earnings multiple of 12 times and dividend yield of 8 per cent. The founder and chief investment officer of GQG is Rajiv Jain [<https://www.afr.com/markets/equity-markets/rajiv-jain-s-contrarian-tech-bet-pays-off-for-gqg-20220204-p59ttp>], who owns 68 per cent of the business so clearly is very aligned with minority shareholders.

### **Which stocks have you added to due to cheaper valuations?**

We have added to GQQ Partners and three other stocks: Retail Food Group, Arena REIT and Premier Investments.

Retail Food Group is based on our view that the stock is very cheap, has earnings that are more resilient than is priced in, and is being unfairly penalised by investors due to ongoing uncertainty around the ACCC investigation (into conduct under previous RFG management) and the potential financial penalty.

We added to Arena REIT as we believe it has been oversold due to the recent spike in bond yields [<https://www.afr.com/markets/debt-markets/bond-yields-climb-as-higher-rates-in-sight-20220906-p5bf3>]. Whilst we agree there will be downward pressure on its net asset value, the 30 per cent decline in stock price has more than captured this risk in our view. In addition, ARF has a large percentage of its properties with rent reviews linked to CPI, so the current high inflation does flow through to improved rent revenue.

We have added to Premier Investments as we continue to see the company as an extremely well run retailer with a portfolio of strong brands.

### **What stock has been reduced?**

Pinnacle Investment Management is a stock we have owned for a long period of time and whilst we remain comfortable with the long-term growth outlook, when the stock price approached \$11 recently we did reduce our holding based on valuation grounds, given the FY23 price-to-earnings multiple was 28 times, which, in an environment of rising interest rates, is quite elevated, even factoring in PNI's future earnings growth.

We believe some of its key funds may struggle performance wise until interest rates stabilise. In addition, we believe there are asset managers and non-bank financials that offer superior valuation upside at this point of the cycle and hence have rotated funds into those stocks.

### **What's a stock you're keeping an eye on but don't own?**

Nick Scali is a stock we don't own but are watching closely as a potential addition to the portfolio. The company has been a beneficiary of a strong residential housing market and is extremely well run by its long-time CEO.

The stock has materially derated in the last 12 months, having fallen from \$15 in late 2021 to \$9.50 currently, based on fears that interest rate hikes and a slowing housing market will flow through to weaker furniture sales. That may well be true, but it is possible that the stock price fall is now overdone, given it is trading on a price-to-earnings multiple of just 10 times.

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**Favourite local bar or restaurant?**

I can't split our two local cafés in Malvern – Café Thread and Neon Tiger. Both have super friendly owners and staff and do amazing coffee and cooked breakfasts. Teo's, also in Malvern, is great for wood fired pizza.

**Any podcasts or TV shows you would recommend?**

Favourite podcasts include *Empowering Leaders* with Luke Darcy for interesting interviews with business leaders, *Capital Allocators* with Ted Seides, and for something a bit more lighthearted, the *Imperfects*.

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