BPI IBERIA FUND

PERFORMANCE REVIEW

In the third quarter of 2023, the fund went up 57bps and outperformed the benchmark in 54bps. YTD performance of the fund is at +14.51% vs 16.71% of the benchmark.

The main contribution of the quarter came from the Retail sector with +25bps vs benchmark mainly due to our underweight in Jeronimo Martins that contributed with +24bps while our overweight in Sonae and underweight in Inditex stood barely flat. At the end of July, Jeronimo Martins presented 2Q23 results with LfL sales in Poland coming at 17%, a good figure but short of consensus expectations. EBITDA margin went down by 26bps and for the next quarters, investors are fearing that the fall may accelerate as the slowdown in food inflation will reduce the company's operating leverage. These fears were reinforced after the Polish Government announced a 20% increase in minimum wage for 2024. The margin headwinds are already being felt by the company competitor's as Dino, one of Jeronimo's main competitor in Poland, presented worse than expected results at gross margin and EBITDA level.

Another good contributor was the Financials sector with 13bps vs benchmark mainly due to our overweight in Bankinter vs underweight in Caixabank. Bankinter presented solid 3Q23 results with net profit coming 7% above consensus expectations mainly due to better-than-expected performance at NII and provisions level. The company upgraded its FY23 NII guidance to 35-40% growth from +25% previously. Furthermore, Bankinter's customer deposits grew 5% qoq helping to dismiss investors' fears that it had a less sticky base. It's true that its deposits' remuneration grew by 44bps which was above competitors, but the bank stated that the large part of this process has already been carried out and that from now on, their deposit beta will grow at slower pace than peers. Caixabank also delivered good results with NII being the main driver. It also updated FY23 NII guidance from >€8.75bn to >€9.25bn and announced a €500mn share buyback. Despite good results, the stock's reaction was muted as it had already been outperforming in the year. More recently, Caixabank launched a 1-year deposit for up to 2% which was interpreted as the first move of a relevant bank to increase deposits' remuneration, nevertheless it comes with lots of conditions attached to it.

On the negative side, Construction emerges as the main detractor but that is compensated with the positive contribution of another cyclical stocks of other sectors. So in what concerns detractors, we highlight the Oil sector with -19bps vs benchmark as our overweight in Repsol underperformed our underweight in Galp. In the 2Q23 results, Repsol refining margins deteriorated more than Galp's margins. Repsol margin decreased from $15.6/bbl in 1Q23 to $6.4/bbl in the 2Q23 while in Galp margins went from $14.3/bbl to $7.7/bbl. Additionally, it's worth to highlight that Galp presented good 2Q23 driven by midstream that includes gas trading activities. During the quarter, the oil prices went up by almost 30% and Galp has a little bit more sensitivity due to the longer life of its reserves.
We opened a new position in Viscofan after the stock's weak reaction to 2Q23 results. We believe that the company can suffer some short-term pain due to energy hedges contracted for 2023 but as these hedges terminate, profitability will improve very fast in the next years.

FUND INFORMATION

Manager:
Pedro Maruny

Fund AUM (€):
42.1 Million

Share Class:
Class I

Minimum Investment:
EUR 250 000

Inception Date:
April 2007

Fee Structure:
Subscription Fee: 3%
Management Fee: 1%

Bloomberg Code:
BPIIBRI LX Equity

ISIN Code:
LU0292622254

We closed our position in Rovi after its stellar performance with the 2Q23 earnings' release that included the announcement of a 5% share buyback and the improvement of 2023 outlook mainly due to better prospects at the manufacturing business. Despite considering that, at that moment, the valuation was no longer very appealing, we will continue to monitor this stock closely because we recognize the company's good position within the manufacturing industry that can benefit if the big pharmas continue to outsource part of their production.

Within cyclicals, we increased our position in Navigator to overweight after the first signals of stabilization in pulp prices, reducing the pressure over the paper prices, and prospects of good results for the next quarters of this year. To compensate that, we sold our position in Acerinox that we thought was offering a least compelling valuation.

We reverted our underweight position in IAG to overweight and reduced our position in Amadeus. In IAG, the company is confident in air traffic evolution for the remainder of the year with yields being supported by premium leisure traffic that will mean a good FCF generation. As for Amadeus, the company is finding difficult to recover its GDS business to pre-pandemic levels due to corporate travel's headwinds.

INVESTMENT CASES

Sabadell

It was not a long time ago that we wrote about the merits of Sabadell's investment case. Now, 25% later (SAB's YTD performance) we thought that it was worth to revisit the case as, for us, it continues to be one of the most interesting ideas in the current environment.

Back then we wrote that we thought that Sabadell could near 10% RoTE in 2023 excluding the impact of the banking tax and after that, at YE22 results, the company showed that we were overly conservative and guided for >10.5% ex-banking tax (9% including banking tax). With interest rates going higher than expected and after the excellent operational performance of 1H23, Sabadell recently revised upwards its FY23 guidance to ~10.5% including banking tax (banking tax represents c.1.5pp of profitability). Better, the bank continues to affirm that RoTE will further improve in 2024.

Within the reasons for targets revision, obviously that NII performance comes at the top of the list. At the beginning of the year, Euribor 12M forwards were pointing to a peak rate around 3.8% somewhere this year but it is currently at 4.2%. Also, Sabadell was expecting an average deposit beta of 20%-25% in 2023 and reality shows that it is progressing slower than expected. All of this means that at the beginning of the year Sabadell was expecting NII to improve by high-teens and currently expects it to increase by more than 20%.

In 2024, despite deposits' beta upwards pressure, we will continue to see credit yield to improve as the floating loan book still doesn't reflect euribor's current rate and in the case of Sabadell, which has higher exposure to SMEs, the repricing process is a little bit slower and will continue to be drive NII up in 2024.

As for other P&L lines, Sabadell improved its total costs guidance from 4% growth to c.3.5% growth and its total cost of risk guidance from <65bps to <60bps. The latter confirms the message, that is common to the entire sector, that there are still no signs of deterioration in terms of asset quality and that banks are in a much better position than in the past.

Another strong P&L booster in 2024 can be the strong reduction/elimination in contributions to the single resolution fund (SRF) and the deposit guarantee fund (DGF) to which Sabadell has been contribution with around €75mn and €120mn, respectively.

Looking to capital position, Sabadell has done a good job in strengthening its FL CET1 ratio which is currently at 12.9% and allowed the bank to be executing the first share buyback (€204mn) in years.

Lastly, we continue to see the bank as having an interesting M&A angle either in a potential sale of TSB, its UK subsidiary, or as a piece in the consolidation of the Spanish market. Considering this last point, in the recent past BBVA tried to acquire Sabadell but there was no agreement in the merger swap ratio and more recently, there were rumors stating the Sabadell and Unicaja could pursue a merger that would rank them as clear #4 player with c.12% market share. Such operation could have strategic fit in terms of credit diversification (Sabadell with higher focus on SMEs and Unicaja on mortgages) and geographically wise (could allow Sabadell to increase exposure to Andalucia). Moreover, in this kind of operation synergies are estimated to reach >10/15% of consolidated cost base. We don't see the operation advancing in the near term, but it shows once again the key role of Sabadell in the future consolidation puzzle.

The stock still trades at c.0.55x P/tBv and at c.<5x P/e 2024, for a RoTE >10.5% which we see as very interesting within the sector.

Navigator

The Navigator Company is Europe's largest and most efficient UWF (Uncoated Wood Free) paper producer with a capacity of 1.6mn tonnes. The company is vertically integrated operating also three BEKP plants in Portugal with a total capacity of 1.6mn tonnes (c.300 tonnes available to sell in the market). Finally, the company also have a tissue business in Iberia, which was reinforced this year with the acquisition of GOMÀ, having now a total capacity of 165k tonnes of reels and 180k tonnes of converting capacity.

The pulp&paper sector has been under pressure this year with pulp prices declining c.40% YTD, reaching lows in August'23 of USD800/ton. UWF paper prices were also under pressure but at a more moderate pace, declining only c. 15% YTD to levels of 1135€/ton at end of September (vs historic maximums of 1358€/ton in November last year). Despite the very weak European demand for paper, which fell by c.25% in 1H23, the industry demonstrated a very disciplined competitive environment, adjusting its utilization rates to levels around 67% and Navigator being the most efficient player in Europe, worked at c.75%. This sector discipline proved to be very successful, leading the price gap between UWF paper and BHKP prices after discounts to levels around €685/ton, versus the historical average around €375/ton. With this price resilience helping the top line, Navigator was able to manage very well it´s costs even working with utilization rates of 75% and delivered more than €120M EBITDA per quarter in 1H23, corresponding to EBITDA margins above 25% in this very difficult environment for the industry.

During the summer there were some stabilization signals of pulp prices, with Suzano announcing a 50$/ton price increase for September and another 50$/ton hike for October, which will have a positive direct impact in the pulp directly sold to the market by the company. But more important to Navigator is that the stabilization of pulp prices will indeed reduce the pressure over the paper prices and paper players are also reporting a slight demand improvement post-summer, signaling that the destocking process should be close to an end. This better environment should allow the company to continue delivering good results in the 2H23.

Important to highlight that despite the structural decline of paper demand in the last few years, the European paper players have been very disciplined, with several capacity shutdowns or conversions into packaging. Navigator is now the market leader with a market share above 25% and with more than 2 times the capacity of the second player Sylvamo, positioning the company very well as a price maker for the industry.

The company has also been diversifying its business through increasing presence in the tissue segment, which was reinforced this year with the acquisition of Gomà, a company with 35k tonnes of reels capacity and 60k tonnes of converting capacity. The strategy is proving to be very successful as this year despite all the price pressure in other segments, tissue prices continue increasing vs 2022 and Navigator is achieving very good profitability in this segment.

The strong position of the company in the paper segment together with the company excellent track record in cost management and its diversification strategy into tissue should allow it to achieve an EBITDA >€450M in 2023, a remarkable achievement in a very tough year for the industry. The company has a solid balance sheet with Net Debt/EBITDA below 1x and considering a normalized EBITDA of €450M and a capex of €100M, at current prices the company has an interesting FCF to Equity of 10%. Furthermore, with the industry recently stabilization signals we see room for some results' improvement in the next years, positioning the company as an interesting investment opportunity at current prices.

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To the attention of Swiss investors:

- The marketing of the class I (EUR) is restricted to qualified investors under revised CISA Art 120 §4 in Switzerland

To the attention of French investors:

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- The French centralizing agent is Société Générale Securities Services, 189 rue d’Aubervilliers, 75886 Paris Cedex 18, France
- The prospectus, the annual and semi-annual reports and the management regulations in English language can be obtained free of charge on request from the French centralizing agent
- The KIID(s) in French language can be obtained free of charge on request from the French centralizing agent

To the attention of German investors:

- BPI Global Investment Fund – BPI Iberia is a Luxembourg undertaking for collective investment in transferable securities (UCITS) authorised for cross-border distribution in Germany under Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), and is registered with the BaFin under BaFin-id 70147687
- The German information agent and paying agent is BNP Paribas Securities Services S.C.A. Frankfurt branch, Europa-Allee 12, 60327 Frankfurt, Germany
- The prospectus, the annual and semi-annual reports and the management regulations in English language can be obtained free of charge on request from the German information agent
- The KIID(s) in German language can be obtained free of charge on request from the German information agent

To the attention of Spanish investors:

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- The Portuguese paying agent is Banco BPI, Rua Tenente Valadim, 284, 4100-476 Porto, Portugal

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