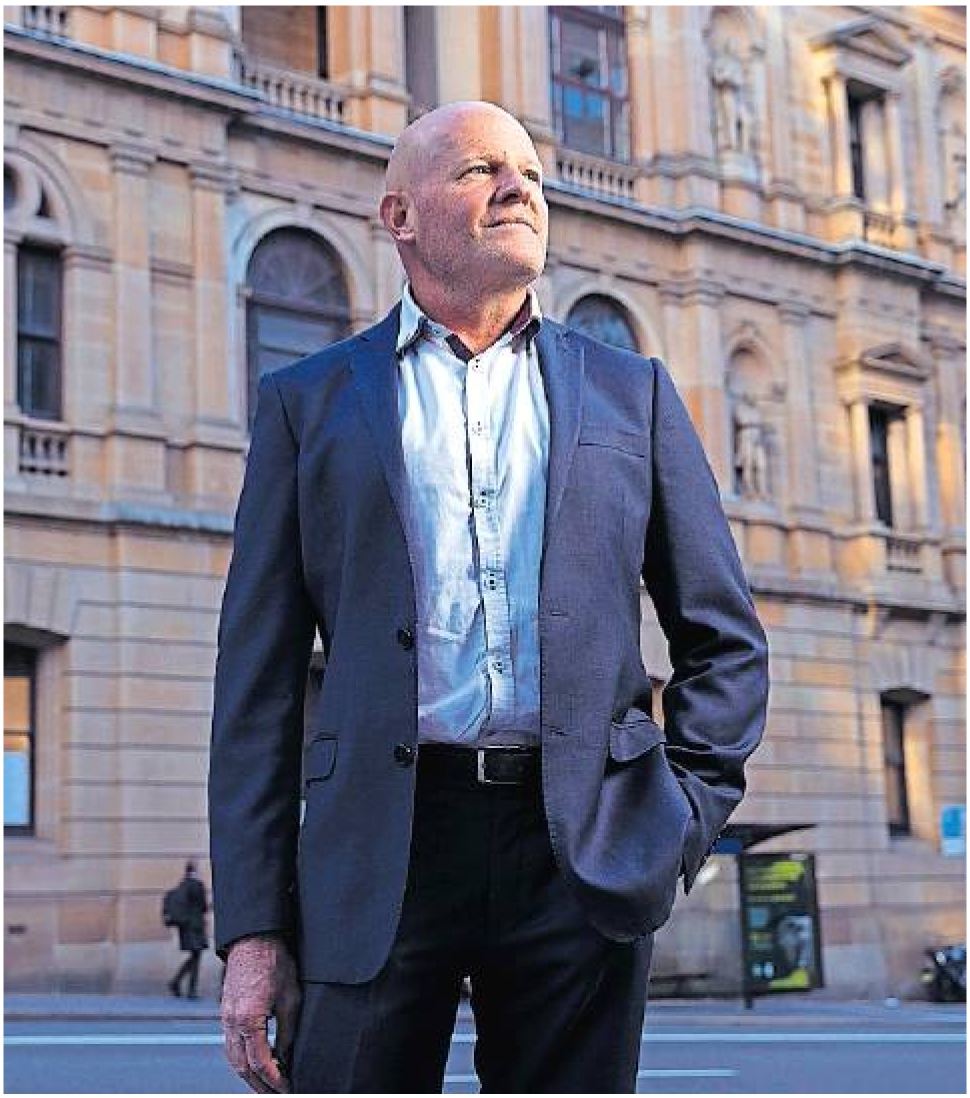
Hunting for value with a contrarian mindset

Monday fundie When it comes to investing, forge your own path.

William McInnes



James Williamson says investors need to make sure they are not just following momentum. PHOTO: DOMINIC LORRIMER

As a young analyst working in Johannesburg, James Williamson was covering the luxury goods sector for French multinational investment bank Societe Generale.

But walking into the company's head office in Paris in the early 2000s, the French head of research made an awkward intervention.

''He said: 'No, no, no, you can't cover luxury goods','' says Williamson. ''He thought it was totally inappropriate for a South African to cover luxury goods. It was probably fair.''

Whether it was the influence of that meeting or something else, Williamson no longer has a penchant for luxury companies.

The fund he manages for boutique value manager Wentworth Williamson, which he founded in 2013, includes service companies and utilities, a far cry from the LVMHs and Estee Lauders of the world.

But that's exactly where Williamson likes to be, hunting for the companies the rest of the market has forgotten and buying stocks when they're most out of favour. ''Being value contrarian, if everyone's *saying it, it's probably not such a great deal,'' he says. ''If there's momentum, we're probably not going to be that interested. But if something's in the newspaper for the wrong reasons, either a management change or a few profit warnings, we would definitely have a really good look at it.''*

He says that while it is still too early in its listed cycle to look at a stock such as Nuix, which has suffered following a disappointing result and downgrades, such companies are often prompted to begin a turnaround when they are most out of favour.

''What typically happens is [the headlines] create a lot of angst, so there's some changes on the board and changes in the executive,'' he says.

Williamson often mentions former Allan Gray chief investment officer and executive chairman Simon Marais, who built a reputation for his ''deep-value'' contrarian approach.

''In the late 1990s, I was watching the late Simon Marais, when they lost all their clients bar one and I was thinking 'man, I want to do that', I want everyone to dislike me and then be right,'' he says. ''But when you actually live through it, it's not so nice and you definitely want an easier road.

''But at the time when I'm buying an asset, I don't really want it to be consensus that I'm right. I don't expect everyone to agree with me the day after I'm finished buying the last dollar, although that would be nice.''

Investing in value at the smaller end of the market has come with its challenges in the last decade.

''There's no question that when you look over the long-term, small-cap value outperforms the rest by multiples,'' says Williamson.

''But that narrative has not played out the last 10 years and it's actually been the opposite. Small-cap value has been by far the worst performer.''

He says being a value investor isn't just about buying companies on low multiples, but rather, it's about buying stocks at a time when they're a little out of favour. ''There's at least two assets in our portfolio which you'd consider growth stocks but when we bought them, they were heavily out of favour,'' he says. ''We're certainly not always right, but if we're right seven times out of 10, I'm happy.''

In the 12 months to March 31, the fund made a net return of 45.2 per cent, beating out the 38.3 per cent return on the S&P/ASX 300 Accumulation Index.

Sometimes Williamson's bets are so out of favour, he prefers to keep them quiet. ''Back in 2019, we initiated on uranium. People wanted to shoot you and we just kept quiet about it, we didn't make a noise about it at all,'' he says. ''For us, we didn't go bigger because there was just pure risk. There were cleaner global exposures but we were just buying the uranium in the ground, buying some small positions in five of the smaller miners.''

Williamson has a pretty clear mantra when it comes to buying commodity stocks: they've got to be out of favour.

''We own Woodside. LNG did grow during COVID and I think there's a strong case it will continue to grow,'' he says.

The fund has also invested in offshore marine and subsea services provider MMA Offshore, which was trading at a third of written-down tangible assets.

''MMA Offshore also just got recapitalised,'' says Williamson. ''The growth in offshore wind is just incredible and sometimes these older assets just get a new impetus.''

He says many assets in the portfolio are simply forgotten about by the markets, and the incremental retail buyers who would normally fill the gaps, are instead buying cryptocurrencies.

One of the largest positions in the fund is modular building solutions provider Fleetwood.

''Its pricing is quite remarkable because almost 30 per cent of the market cap is just in pure cash, its got a big percentage of market cap in franking credits and a non-core business making parts for recreational vehicles which wouldn't be hard to sell off, and a modular building business which is clearly facing a huge wave of infrastructure spend.

''It's got a revamped executive team and chair, and it's a growth name but it is trading on ridiculously low multiples. It's hard to punch holes in the thesis. It's hard to say it's safe because things can go wrong, but it's just so cheap and can absolutely grow.''

The fund also has a sizeable position in AMA Group. ''It was in the press for all the wrong reasons but fundamentally there is a really strong, cash business,'' he says.

Williamson has worked alongside some of the legends of Australian investing. In one of his first jobs at Mercantile Mutual, he rubbed shoulders with David Paradice and former Macquarie Bank chief investment officer Greg Matthews.

He then moved to the sell-side, working as an analyst for SocieteGenerale and ABN AMRO Bank, before moving back to Australia in 2005 and joining Investec.

''I met Geoff Levy and he was running Investec at the time and he was just a really interesting guy,'' says Williamson. ''You tend, as an analyst, to be quite theoretical, you're not doing the deals, so I knew I had a lot to learn from him.''

The relationship between the pair has gone well beyond their days at Investec too. Levy is now chairman of Wentworth Williamson.

Although value has been out of favour for some time, Williamson believes a renaissance is on the cards and growth managers could begin to struggle.

''When the cycle changes, and the growth darlings have already seen it, it can crater quite quickly and god forbid you start missing expectations,'' he says.

''You can become unloved pretty quickly and this short-term focus can really hurt you.''

He says he sees a similar shakeout to the early 2000s tech wreck occurring over the next few years.

''We haven't just had this tech renaissance, but we've also had extraordinary growth in ETFs. There's a very young demographic that appears to be speculating in all sorts of stocks and ETFs,'' he says.

''In the late 1990s, everything was moving to all the tech companies and there were some hollowed-out entities and the share prices were doing amazing things, while the real businesses making good cash flow were just cratering.

''Of course, it all flipped and I think we've hit that turning point already. And when it does flip, it lasts for a long time.''

He says investors needed to make sure they weren't just following momentum.

''It was a real good lesson for me that you really can't look at a share price and follow it up and follow it down,'' he says.

''You have to have conviction on what the asset is worth.''