Ennismore Global Equity Fund

Investor Newsletter for the month of August 2024

Issued on 5th September 2024

Fund Details

Daily dealing UCITS and Irish Central Bank regulated open-ended investment company with Financial Conduct Authority recognition and registered in Ireland, Germany, Italy, Spain and Sweden. The Fund size was GBP 140m as at 30th August. Total assets under management by Ennismore Fund Management were GBP 489m. The number of shares issued by our funds is capped in order to limit the level of assets under management in each strategy. We currently have capacity available in the Global Equity Fund. If you would like more information or to invest, please contact Adam Sullivan on +44 (0) 20 7368 4224 or email subs@ennismorefunds.com.

Performance as at 30th August 2024

	Share Class[1]					
	GBP	**GBP A**	**EUR**	**CHF**	**EUR I**	**USD I**
NAV per Share[2]	14.94	14.86	15.38	13.55	11.33	11.74
	% Change					
August 2024	1.5	1.5	1.5	0.4	1.3	1.5
2024 to date	7.3	7.3	9.9	13.4	7.4	7.2
Annualised return[3]	5.2	5.1	5.6	3.9	2.0	2.9
Since launch[3]	49.4	48.6	53.8	35.5	13.3	17.4
Note: All performance figures net of fees. **Past performance is not a guide to future returns.**						

Comments below on performance refer to GBP A NAV per share unless otherwise stated, exclude fx and interest contributions to cash and are prior to expenses.

The Fund's NAV increased by 1.5% in August with the long book contributing 0.9% and the short book adding 1.1%.

On the long book, both Admiral Group Plc ("Admiral") and Just Group Plc reported strong half year results. We revisited the former's investment case in our June 2024 newsletter, explaining why it was our largest position. Admiral's share price has outperformed the broader UK market by around 10% since then. However, we thought the response to the results was quite muted given the strength of the volume growth in the core business. Perhaps this is because prices in UK motor insurance have begun to fall as competitors have belatedly recognised the attractive margins currently on offer. Regardless, we think the results over the next couple of years will demonstrate that today's price remains very attractive. The company continues to be our largest position.

On detractors, Melrose Industries Plc cost us 35bps after its 2025 revenue guidance was lowered slightly, driven by industry-wide supply chain issues. This is offset by higher expected profit margins however, as well as the announcement of a new share buyback programme. Valvoline Inc detracted 25bps due to concerns over a heightened competitive environment.

We had solid performance on the short book overall in what was a highly volatile month. Several disappointing earnings results and updates helped to bring some of July's problematic speculative names back down to earth. No single short cost us over 40bps in August.

With the Hong Kong dining sector being out of fashion today, driven by a tough near-term outlook, we follow-up our stock comment on Tam Jai International last month with Café de Coral Holdings, one of the city's larger and more established restaurant operators with a longer track record of profitability. Despite minor differences – with the former's clientele younger and food offering narrower while focused mostly on rice noodles – both offer good value-for-money meals, and in our opinion, good value for money share prices.

[1]Source: Administrator, Net Asset Value, net income reinvested.

[2]Source: Administrator, Net Asset Value.

[3]Since inception of GBP, GBP A, EUR and CHF share classes on 03/10/16, EUR I share class on 03/07/18, USD I share class on 02/01/19.

Top Five Contributors and Detractors for August 2024

Contributors	bps
US travel services business	41
Admiral Group Plc	41
US electronic equipment company	30
Just Group Plc	27
US medical devices company	25

Detractors	bps
Melrose Industries Plc	-35
US telecommunication company	-35
Valvoline Inc	-25
Polish software developer	-22
MONY Group Plc	-19

Top Five Long Holdings as at 30th August 2024

Company	Country	Sector	% of NAV
Admiral Group Plc	United Kingdom	Financials	8.8
Auto Trader Group Plc	United Kingdom	Information Technology	4.5
Nelnet Inc	United States	Financials	4.1
Nippon Television Holdings Inc	Japan	Communication Services	3.5
Flutter Entertainment Plc	Ireland	Consumer Discretionary	3.3
			24.3

Exposures as at 30th August 2024

Longs%	Shorts%	Gross Exposure%	Net Exposure%
107.9 (110.3)	40.0 (46.5)	147.9 (156.7)	67.9 (63.8)

Figures in brackets refer to previous month end. All exposures are calculated on a delta adjusted basis. All calculations are subject to the impact of rounding

Exposures by Country, Market Cap & Sector as % NAV and Positions as at 30th August 2024

Country	Gross%	Net%
United States	41.0	-6.6
United Kingdom	38.2	35.8
Japan	10.2	8.4
Canada	8.6	6.4
Germany	6.2	4.3
Ireland	5.8	5.8
Belgium	5.1	4.3
Norway	4.2	3.5
Italy	3.3	0.8
Hong Kong	3.2	1.3
Sweden	3.0	-2.4
France	2.8	-1.8
Spain	2.1	1.7
Bermuda	1.8	1.8
Mexico	1.7	1.7
Switzerland	1.4	-0.2
Israel	1.4	-0.4
Luxembourg	1.4	1.4
Poland	1.3	-1.3
Cayman Islands	1.2	1.2
South Korea	1.1	1.1
Philippines	1.0	1.0
Other	1.8	0.1

Market Cap	Gross%	Net%
>$10bn	46.3	30.5
$5bn - $10bn	26.5	13.6
$1bn - $5bn	47.2	13.0
<$1bn	27.9	10.7

Positions	Aug	Jul
Long	84	87
Short	79	80
Longs Opened	1	5
Longs Closed	4	4
Shorts Opened	8	10
Shorts Closed	9	15

Sector	Gross%	Net%
Communication Services	13.6	13.3
Consumer Discretionary	25.6	8.4
Consumer Staples	12.6	-0.5
Energy	2.3	2.3
Financials	31.4	24.1
Health Care	6.9	2.3
Industrials	17.4	4.0
Information Technology	25.0	8.6
Materials	8.3	3.5
Real Estate	4.7	1.8
Utilities	0.0	0.0
Other	0.0	0.0

Geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

Café de Coral Holdings – Hong Kong quick service restaurant operator (0.5% NAV)

Founded in 1968, today Café de Coral Holdings ("CdC") is one of the largest fast-food chain and casual dining operators in Hong Kong ("HK"). The company's shares are currently trading on less than 12x enterprise value to historically depressed net operating profits after tax ("NOPAT") for the fiscal year ending March 2024, providing a highly asymmetric risk-reward profile should business conditions improve. The founding family is still involved and owns 45% of the company. It helps to see management starting to buy back shares in the last couple of months, utilising excess net cash on the balance sheet.

CdC has always prided itself on providing locals with the best value-for-money meals. Regarded as the "Hongkongers' canteen", the core format Café de Coral generates most of the group's turnover, offering a wide variety of both Asian and Western meals throughout the day – including rice dishes, dim sum, sandwiches, steak fillets, roast meats, stir-fry noodles, curries, soups, etc. – at affordable prices with average spend per head c. HK$40-50 (c. £4-5). The company also runs quick service outlets offering comfort food at a similar price point under the Super Super Congee & Noodles banner as well as a variety of casual dining formats in HK. In addition, CdC is the largest school lunch supplier domestically, one of only two sizeable caterers, serving commercial clients such as schools, universities and hospitals. This helps in maintaining scale and has some synergies with existing restaurant operations.

Low prices lead to better volumes which in turn allows management to regularly test new items on the menu keeping it fresh and exciting for customers and driving higher visit frequency. Scale economies benefit the company in procurement and food preparation, allowing it to invest more in enhancing customer loyalty and retention through regular promotions and marketing with its Club 100 membership programme. The in-store experience has been overhauled recently through more efficient kiosk and mobile ordering systems which increase staff utilisation and lower overall costs. An impressive 1.6 million of HK's population of 7.4 million were registered members of Club 100 by the end of the last fiscal year.

Revenues were HK$8.7bn during the fiscal year ending March 2024, mostly derived from the HK operations with less than a fifth coming from mainland China, while around three-quarters of the group's HK$400m in operating profits came from the domestic market. Historically, operating profit margins were higher in HK and had been in the high single-digit to low double-digit range. This stood at just 4% last year however, driven by significantly lower diner volumes in CdC's domestic quick service restaurants. It remains to be seen whether this is a permanent shift in dining patterns or if traffic volumes will eventually recover. Nevertheless, this is also an industry-wide issue that is now leading to weaker peers closing down at a rapid rate. A restoration of an appropriate supply-demand balance should allow margins to recover, whichever way this happens.

Despite such difficult circumstances, the group was still able to generate a respectable 17% post-tax return on capital employed. This is before adjusting for company owned properties – as opposed to leased – as well as investment properties on the balance sheet, which in aggregate account for 48% of capital employed. Management has been opportunistic over time with regards to owning some of its restaurant and food factory locations, enabling a better bargaining position with landlords and providing stability and flexibility in operations.

Management views its HK operations to be mature at this stage with 219 locations for the quick service segment and 62 casual dining restaurants at the end of March 2024. As such, only 4-5 new openings are planned for this fiscal year. Growth is going to be mainly driven by its mainland Chinese operations, which had 171 Café de Coral outlets at the end of fiscal 2024, with 25 new openings planned for this fiscal year and an eventual target of 280-300 locations. The focus right now is on expansion within the Greater Bay Area, where the culture and taste profiles are closest to HK. The region has a population ten times that of CdC's domestic market, with existing operations already proven to be profitable. Unit economics are broadly similar as well to HK, with a payback period of 28 months. CdC's mainland restaurants also tend to be smaller, requiring lower upfront investments per location of HK$2.8m, compared to HK$6-7m in HK.

CdC has historically paid out most of its profits in the form of dividends. In the fiscal year 2024, all earnings were paid out putting the shares on a 7.1% dividend yield today. Together with the ongoing share repurchases, we're getting a decent return on our investment as well as growth in CdC's Chinese operations – this allows us to be patient in waiting for the recovery in the group's HK restaurant traffic volumes. Better cost control and further improvements in productivity driven by increased automation and digitalisation could also help bring margins back to where they were before.

With a market capitalisation of HK$4.76bn and a net cash position of HK$876m, CdC's shares are trading on less than 12x depressed historic NOPAT of HK$326m in FY2024. Going forward, we expect annual profit growth in the low to mid-single-digit range, mainly driven by the group's mainland expansion. Considering the business's track record and scale advantages, whilst ignoring any potential recovery in margins – which had historically been roughly twice today's levels – conservatively valuing the operations at 15x NOPAT should give an upside of around 30% over the next couple of years. However, should margins improve significantly, one could easily see an upside of over 100%.

Monthly percentage return for the GBP A share class of the Global Equity Fund

Year	Jan (%)	Feb (%)	Mar (%)	Apr (%)	May (%)	Jun (%)	Jul (%)	Aug (%)	Sep (%)	Oct (%)	Nov (%)	Dec (%)	Annual
2024	3.3	-3.1	1.9	1.1	2.7	-0.9	0.7	1.5					**7.3**
2023	0.7	0.8	0.1	3.4	-1.7	-0.9	0.8	2.5	4.9	0.9	-0.4	-0.1	**11.4**
2022	-1.7	-3.2	-3.3	3.4	0.4	-5.2	4.5	0.4	-0.4	0.5	4.1	6.2	**5.2**
2021	-2.6	1.4	2.7	3.0	0.7	-0.9	2.2	1.2	1.9	-3.9	1.7	2.3	**10.0**
2020	-4.8	-6.6	-5.4	4.6	-1.0	2.2	-4.5	-10.3	5.3	-0.8	-3.6	2.2	**-21.3**
2019	2.9	1.0	0.3	1.7	-0.2	0.5	1.0	1.8	1.9	0.0	-4.5	0.8	**7.3**
2018	-4.4	5.8	-0.9	3.3	2.8	5.9	1.8	4.0	1.0	0.7	0.5	-3.0	**18.6**
2017	-0.1	-1.4	-1.2	-2.9	1.7	-1.5	1.0	3.2	-2.8	1.3	-1.2	5.5	**1.3**
2016										1.3	-0.8	5.3	**5.8**

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