global investor by Jean Pierre Verster

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Mind the Garp

In a reversal of the past decade, the past six months have seen value stocks significantly outperform growth stocks. Using the Vanguard Value and Vanguard Growth exchange traded funds as proxies, value stocks have returned 32.5% since November 1 2020, while growth stocks have returned only 24.5% from then to May 1 2021. Over a longer period, however, growth stocks are the clear winners, returning 314.6% over the past decade, versus 132.8% for value stocks.

The problem is that it has become increasingly difficult to find growth at a reasonable price (Garp). Abundant fiscal support and unprecedented monetary stimulus have powered global markets higher, and low interest rates are keeping valuations elevated. But there are always opportunities:

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Boohoo Group

Fourth-quarter results for this UK-based online fashion retailer will hit the wires at roughly the same time as this magazine hits the newsstands. Revenue is expected to grow by almost 40% year on year, and EPS at an even higher rate. While lockdowns have decimated the UK bricks-and-mortar retail sector, they have been a boon for online retailers. More than half of all fashion products bought in the UK are now purchased online. Boohoo recently bought the Debenhams brand and online business out of administration, extending its online offering to beauty and homeware products. The shares are trading at a reasonable valuation due to some recent controversy. In July 2020, reports surfaced that key suppliers to Boohoo were violating workers' rights and paying below minimum wage, with Boohoo turning a blind eye. The shares roughly halved in price when the news broke. Boohoo is, however, working hard to address these supply chain failures.

Facebook

Revenue for the social network behemoth grew by 48% for the first quarter of 2021, with EPS almost doubling from a year ago. Advertising spend has been stronger than anticipated, and there is a keen focus to participate lower down the funnel. Basically, this means keeping users within the Facebook, Instagram and WhatsApp ecosystems with in-app purchases, rather than allowing them to be redirected away to third-party websites. Keeping eyeballs (and wallets) within the Facebook apps would be a very lucrative source of additional revenue for the company. Virtual and augmented reality are further opportunities, which indicates that above-average growth in profits can be sustained well into the future. Apple's new third-party data usage limitations embedded in iOS 14.5 is a risk, but Facebook believes the impact is manageable, which implies that Facebook shares are quite reasonably valued at the moment.

HelloFresh

HelloFresh is listed on the Frankfurt Stock Exchange, but the meal-kit provider operates in multiple countries. The business model entails preparing and delivering fresh ingredients to customers every few days, with recipes, for making meals at home. With more than 600-million meal kits delivered in 2020, 5.3-million active customers and a leading position in the lucrative US market, HelloFresh is well positioned to continue growing strongly. Recent quarterly results were above expectations, with revenue doubling from a year ago. The shares are trading at a reasonable valuation due to concerns that growth will slow as people flock back to restaurants. Our view is that the trend of smaller families being time-poor but health-conscious will continue. It is a structural shift in how people consume food, which should support HelloFresh's business model far into the future.

Malibu Boats

Headquartered in Loudon, Tennessee, Malibu is the world's largest manufacturer of performance sports boats, used recreationally and in water-skiing and wakeboarding events. Its patented Surf Gate technology enables customised waves to be generated on either side of the boat, and has been licensed to dozens of other boat manufacturers.

Consumer spending on recreation is expected to surge as people emerge from lockdowns and become more active again, benefiting Malibu's boat sales. The company reported strong quarterly results recently, and expects revenue growth of more than 35% for the financial year to June 2021, with EPS expected to surge by more than 85%. At a market capitalisation of less than $2bn, the company hasn't attracted as much attention as that of larger high-growth stocks, which has kept the valuation quite reasonable.

Ultimately, instead of trying to time when to invest in value stocks and when to invest in growth stocks, rather stick with quality companies growing their earnings at an above-average rate. And when the shares of such companies get unreasonably expensive, as is the case now, keep on searching globally for opportunities to switch to Garp. x

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