



## Sanity from Omaha's sages



Warren Buffett  
Took control in 1965

Bloomberg/Houston Colelet

Last Saturday was the 57th annual meeting of Berkshire Hathaway shareholders since Warren Buffett took control of the company in 1965. By all accounts, attendance was a bit less than the roughly 40,000-strong crowd of 2019, the last pre-Covid event. It was also again livestreamed, allowing pundits from around the world to tune in to the wisdom of Buffett and Charlie Munger without getting on a plane.

Making the pilgrimage does have its benefits, though. Between shopping for Berkshire memorabilia or rare investment books, participating in formal shareholder events (such as a 5km fun run) and meeting up informally with like-minded value investors, many still believe in making the annual trek.

For those who don't have the stamina of 91-year-old Buffett or 98-year-old Munger to sit through almost five hours of questions, highlights of their comments can be found online. Topics discussed include the menace of inflation, the importance of cash in times of crisis, the difference between investing and speculation, and the societal slide towards increased tribalism.

Shareholders were also eager to hear what stocks Buffett has been buying this year so far. Let's have a look.

### Chevron

Berkshire's largest purchase in the past quarter has been Chevron. The energy behemoth has a market capitalisation of more than \$300bn, with operations spanning upstream (extracting crude oil and gas out of the ground or sea), midstream (transport and storage) and downstream (refining and selling petroleum products), as well as chemical-re-

lated activities. At a recent investor day, Chevron emphasised it would break even on a cashflow basis at an oil price of \$50 a barrel. With oil now trading above \$100 a barrel and expected to stay elevated for the foreseeable future, the company is going to be gushing cash.

### Occidental Petroleum

Buffett first invested in Occidental Petroleum (commonly known as Oxy) in 2019, in the form of \$10bn worth of preference shares which were issued to Berkshire to finance Oxy's acquisition of Anadarko Petroleum. As part of the deal, Berkshire also received warrants for 84-million Oxy shares that can be exercised for about \$5bn. Buffett has bought an additional \$7bn of Oxy shares so far in 2022. Oxy is involved in upstream and midstream activities, and also has substantial chemical operations. The company has a high debt load, making it sensitive to higher oil prices which will supercharge profit growth. Oxy just needs to keep an eye on capital expenditure as inflation is particularly bad for capex-heavy companies, where the ongoing cost of sustaining operations is not fully captured in the income statement.

### Activision Blizzard

On January 18 2022, Microsoft announced its intention to buy video gam-

ing company Activision Blizzard for \$95 a share in cash. Since then, Activision has been trading between \$75 and \$82 a share, which represents a juicy expected return if the deal is consummated as expected in about a year's time.

The key risk is that the Federal Trade Commission might decide to block the deal on anticompetitive concerns, because it would catapult Microsoft into becoming the third-largest gaming company worldwide.

Buffett seems less concerned about regulatory intervention though, since Berkshire recently bought almost 10% of Activision. In the absence of the deal, we estimate Activision shares are worth \$70. With about 10% downside and 24% upside, it's game on for this merger arbitrage trade.

### Hewlett-Packard

There were no comments or questions at the meeting regarding Berkshire's recent purchase of an 11% stake in Hewlett-Packard (HP).

The printing and computer hardware company still generates half of operating profits from its mature printing division, even though printing now represents less than 30% of group revenues. While printing-related revenue has stagnated over the past few years, the work-from-home trend is providing a fillip to sales of laptops and video-conferencing hardware.

The investment case for HP is not based on strong growth for the business, but rather strong growth on a per share basis. This is due to HP employing most of its steady free cash flow to repurchase shares, which can turn a slow-growing company into a strongly growing share.

The days of these two geriatrics regaling Berkshire shareholders are clearly drawing to a close, so investors might soon need to look to new gurus for stock ideas. And the main reason Berkshire so often makes shrewd purchases during times when stock markets do crazy things? In Buffett's own words: "It's not because we're smarter ... we're sane, and that's the main requirement in this business." x

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