

INTERVIEW WITH LUCA RIBOLDI

MORE “VALUE” THAN “GROWTH” THAT IS WHY BANOR GOES AFTER “VALUE”

By Sergio Luciano

From turbo-capitalism to growth of authentic value, based on the real economy, and therefore sustainable over time: this is a reconversion process with which international financial markets have started to reckon but that some portfolio managers, even Italian portfolio managers like Banor, have adopted in times when there was less motivation to do so. And so today, the overvaluation of many listed companies in the "growth" category, as revealed on the basis of fundamental economic reports, does not find them unprepared. “Compared to the last few years and beyond, the level of overvaluation observed today is equal to the maximum levels recorded in 2000 during the Nasdaq bubble and, more specifically, in the TMT sector”, said **Luca Riboldi**, Head of Investments at Banor, “a phase in which more than three standard deviations were registered in comparison with the historical average of the growth premium versus value”.

Don't you think that the growth approach reflects a turbo-capitalist and hyper-technocratic culture that deems future exponential development to be likely to such an extent as to take it into consideration in calculating today's prices?

The existence of very fashionable growth sectors, such as the green and the new technologies sectors, that are associated with very high growth expectations, is an incontrovertible fact. What drives such 'very high' valuations are zero and negative interest rates in many parts of the world. This situation leads to all high growth valuations to be pushed to multiples of real revenue values, to levels that have never been seen in the past. And often, let us not forget, we are also talking about companies registering losses. Consequently, the market is ready to pay very high prices for those companies that are able to grow quickly in an environment that is weak from a global economic growth standpoint.



Luca Riboldi,
Head of
Investments
at Banor

“OUR STRATEGY?

BUY STOCK AT REASONABLE MULTIPLES WITH RESPECT TO THE AVERAGE GROWTH RATE”

Is there any interaction between tech giants and the growth sector?

Tech giants such as Facebook, Amazon, Apple and Google have certainly been the driving force behind the strong growth of Nasdaq, a growth however that includes not only the tech sector but also many other high growth sectors. Big companies have multiples that are, at the same time, high with respect to the history of their sector, but still relatively compatible with very low ten-year and real interest rates. Therefore, it is true that their valuations are high but not crazy. What really makes the difference is the effect that these giants have on American indices. So much so, that investors who invest in passive strategies and who, therefore, invest in growth sectors, have engaged so many flows that almost 90% of American asset allocators and strategy analysts are compelled to look at companies that have neither competitive advantages nor multiples that are comparable with those of the big names in the technological sector. We are talking about medium to large companies with very high valuations, despite the fact that they are losing money and are heavily in debt.



Massimiliano
Cagliero,
Managing
Director of
Banor

What does the definition of value stock, as part of your investment management activity, mean for Banor?

For us, the value approach means buying stock with a valuation that is discounted with respect to its intrinsic value, that is, with respect to the assessment of cash flow and dividends that they will generate in future years. This strategy also includes buying stock at multiples that are reasonable with respect to their average growth rate. This does not mean that even the growth part, for stock with reasonable multiples, cannot fall into the “value” category provided, however, that such stock offers a safety margin between the market valuation and what we consider to be its real value.

With interest rates destined to remain low, at least in Europe, following the persistent expansionary policy announced by Draghi, how do interest rate expectations interact with forecasts on “growth” and “value” stock trends?

Low interest rates are a consequence of poor economic growth, which drives investors to pay a lot for growing companies. So, the future scenario is that we will probably have low interest rates for a while yet, and therefore “growth” stock will continue to be in demand for their significant growth rate. But if economic growth stays weak, the risk is that “growth” stock will grow by 10-15% and no longer by 20-30%, which could lead to a setback on their market valuations.

In view of international uncertainties resulting from USA policies and Brexit, what is Banor’s geopolitical vision today?

Regarding the China-USA trade war, which is the most critical issue at the moment, it seems that

the two antagonists can still engage in dialogue. We believe that they will come to some form of agreement. However, it will not be a definitive agreement. The issue of intellectual property requires structural reforms by the Chinese government, and that needs time. The technology war will continue for years. And so, I believe that there will be a truce at 300 degrees, not 360, with some of the issues in question remaining open. This is also demonstrated by the new allocation of American production that is under way to diversify the China risk. This will have a negative impact on that economy, which will lose part of its current quasi-monopoly as a global third-party manufacturer. As for Brexit, it would appear that there is a move towards a tough approach on the part of the United Kingdom, with an advantage to Boris Jonson, former mayor of London, in the current electoral challenge. In any case, we are confident that there will be an exit from the EU with a deal. Finally, a look at the Middle East. We do not think that Trump wants to get caught in an open war against Iran. On the contrary, we believe that the hard line of the US president is a strategy aimed at finding an agreement.

“WE START WITH SECTORAL ANALYSIS, TO SELECT THE BEST COMPANIES OR THOSE THAT ARE MOST UNDERVALUED”

In this changing context on financial markets, how does the Banor method applied to portfolio management work?

We have an approach that starts off with sectoral analysis, then moves on to select the best companies or those that are most undervalued in the various sectors. In this selection process, socially responsible behaviour on the part of companies based on ESG parameters is gaining increasing importance. Once this phase has been completed, we proceed with the creation of a portfolio on the basis of the level of risk to be taken, defining the degree of deviation from the benchmark and selecting the companies that have the greatest upside potential.