INVESTMENT IDEAS

Five investment company bargains

Our small-cap stockpicking expert highlights no fewer than five investment companies to play multiple themes

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By **Simon Thompson**

- Eye-catching results from TMT
- Vietnam Holdings highlights growth and value potential
- Arix Biosciences signs big pharma deal
- Allied Minds value opportunity after boss steps down
- Momentum at Downing

Many investors overlook the merits of investment companies and closed end investment funds, preferring to seek out single company exposure.

However, a fund can offer a wider choice of investment opportunities, diversify portfolio risk and in many cases offer a favourable entry point in relation to the fund’s portfolio value.

Furthermore, sometimes it is nigh impossible to gain single company exposure. That's because some funds have scarcity value, providing access to unlisted investment opportunities that are not offered to private investors. **TMT Investments**, a venture capital company that invests in high-growth, internet-based companies, is a good example, as is **Arix Bioscience**, a venture capital company focused on early-stage biotechnology businesses targeting cutting-edge advances in life sciences.

In other instances, the fund option is the most appropriate way of playing an investment theme, a major reason why I selected closed-end fund **Vietnam Holding** to gain exposure to one of the fastest-growing Asian economies.

Of course, there is no guarantee of success, as investors have experienced with **Allied Minds**, a Boston-based intellectual property (IP) commercialisation company focused on investing in early-stage companies with disruptive technologies. However, as I note in my analysis, investors are being overly pessimistic and the risk/rewards looks favourable.

TMT's eye-catching results

- 163 per cent valuation uplift on Backblaze shareholding.
- US$41m Pipedrive exit realises 51 times original investment.
- Cash recycled into exciting new investments.

Annual results from **TMT Investments** (TMT:738¢), a venture capital company that invests in high-growth, internet-based companies, fully justified my decision to turn buyer on the shares, at 318¢ (‘**On the hunt for recovery buys', 6 July 2020**).

Net asset value (NAV) per share surged by 73 per cent to US$178m (610¢ a share), buoyed by a US$29.3m gain on the sale of TMT's holding in customer relationship management (CRM) software tool developer **Pipedrive**. Other major contributors were global ride-hailing and food delivery company Bolt (US$14.1m valuation uplift), and cloud storage company Backblaze (US$34.8m uplift).

Since admission to Aim in December 2010, TMT has invested in over 65 companies, realised 14 profitable full and partial exits, and increased NAV per share 6.4 times including dividends. The portfolio of 35 companies has real potential to deliver further material gains especially as TMT's 10.85 per cent holding in **Backblaze** is still only valued at US$56m (192¢). The holding could double in value again if Backblaze gets anywhere near to achieving a rumoured US$1bn IPO (‘**Exploiting share price dislocations', 7 December 2020**), a valuation supported by forecast growth in the global cloud storage service market from $50.1bn to $137.3bn by 2025 (MarketsandMarkets estimates).

TMT's astute investment managers have been deploying a cash-rich balance sheet to make 16 investments including an additional US$0.5m in **Scalarr**, a machine learning-based fraud detection solution focused on the advertising market; US$0.5m in **NovaKid** and US$0.75m in **Virtual Mentor**, online schools for children learning English; and US$0.3m in perfume, wellness and beauty product subscription service **Scentbird**. The short-term impact of the Covid-19 pandemic on Scentbird's revenues has been positive as the company continues to grow its annualised revenue at double-digits, and its subscriber base now exceeds 400,000, up 20 per cent year on year. TMT's holding has doubled in value to US$6.6m in the past 12 months.

The same is true for TMT's fifth largest portfolio holding, proposal automation and contract management software provider, **PandaDoc**. Its solutions, which enable sales teams to remotely manage their selling processes "from propose to close", have become even more relevant since the Covid-19 pandemic, so much so that following a recent equity round TMT's investment has been revalued upwards by 63 per cent to US$3.6m.

The bottom line is that with material gains likely to be realised on a conservatively valued portfolio, and net cash of US$34.6m providing ample firepower to fund more investments, the 16 per cent share price premium to NAV should be more than wiped out this year. **Buy**.

Company name	TIDM
TMT Investments (note one)	TMT
Futura Medical (note two)	FUM
Augmentum Fintech	AUGM
Bloomsbury Publishing	BMY
Ramsdens Holdings	RFX
Litigation Capital Management	LIT
Inland	INL
Mercia Asset Management (note three)	MERC

Jersey Oil & Gas	JOG
Driver Group	DRV

Vietnam Holdings highlights growth and value credentials

- NAV per share increased 38 per cent in second half of 2020, and is up 15 per cent in 2021.
- Forecast 2021 GDP growth of 7.8 per cent.
- 21 per cent spot share price discount to NAV.

The latest half-year report from closed-end fund **Vietnam Holding** (VNH:212p) highlights exactly why I suggested buying the shares, at 192p, in my market-beating **2021 Bargain Shares Portfolio**.

Portfolio manager Dynam Capital adopts a GARP (growth at a reasonable price) investment strategy using top-down and bottom-up analysis to create a high-conviction portfolio of 25 mid- to small-cap companies. The fund is a play on three specific secular growth trends in Vietnam: industrialisation (best-in-class manufacturers, international logistics); urbanisation (real estate, transportation, clean energy and clean water); and domestic consumerism and its enablers (sustainable retail, domestic logistics, products and finance).

All three themes reaped hefty returns in the second half of 2020: retail, banking and industrial goods and services listed sectors posted growth of around 50 per cent; telecoms (33 per cent); and real estate (20 per cent). The holding in Hoa Phat Group, a leader in the country's construction and steel pipe industry (8.7 per cent of NAV), soared 90 per cent in value driven by 78 per cent earnings growth and forecasts of double-digit growth in 2021 and 2022.

The fund's holding in leading port operator Gemadept (7.4 per cent of NAV) has been on a tear, too, driven by increased prices at its main ports, volume throughput (average 25 per cent annual growth over the past decade), and the move to increase the country's manufacturing for export base.

Interestingly, the investment managers have trebled their allocation to the banking sector to 30 per cent (index weighting 25 per cent) over the past year. The aim is to take advantage of attractive valuations and wider adoption of credit products by Vietnam's growing middle income consumers as e-commerce markets expand (positive for online payment products), and to play the twin themes of industrialisation and urbanisation (supporting demand for mortgage and savings products). The fund's largest holding in the banking sector, Vietnam Bank CTG (8.6 per cent of NAV) soared 63 per cent in value in the second half of 2020, but the lender is still only rated on a 2021 price/earnings (PE) ratio of 8.8 and 1.3 times price-to-book value. That's a low rating for a bank that controls a 11.4 per cent share of the country's loan market, and holds 10.2 per cent of deposits.

The country's impressive economic growth (2.9 per cent in 2020) and navigation through the Covid-19 pandemic (only 35 reported deaths) is underpinning strong Foreign Direct Investment (record US$20bn in 2020) and a strengthening currency. Vietnam is also seeing the relocation of manufacturing from other countries, and looks poised to be a significant global base for electronics. Not only does the country offer attractive labour rates, talent pool and a strategic position in the Asia Pacific region, but it's also a major beneficiary from the tense relationship between the US and China.

There is undoubted value in the shares. Vietnam Holdings' 21 per cent share price discount to spot NAV of 267p is more than double the 10 per cent discount on the larger **VinaCapital Vietnam Opportunity Fund** (VOF), and there is hidden value, too. That's because half of Vietnam Holdings' US$158m investment portfolio is held in stocks that have reached their foreign ownership limit, so foreign buyers often offer a premium to the listed share price. However, the investment manager uses the lower quoted price in its valuations. **Strong buy**.

Simon Thompson's 2021 Bargain Shares Portfolio Performan

Company name	TIDM	Market	Opening offer price 05.02.21	Bid price 0
San Leon Energy	SLE	Aim	27.5p	39p
Duke Royalty	DUKE	Aim	29p	37.5
Ramsdens Holdings	RFX	Aim	142.8p	170
Downing Strategic Micro-Cap Investment Trust	DSM	Main	69p	75p
Arix Bioscience	ARIX	Main	177p	186
Vietnam Holding	VNH	Main	201.4p	210
Canadian General Investments	CGI	Main	3,611c	3,755
Springfield Properties	SPR	Aim	135.6p	140
Wynnstay Group	WYN	Aim	424p	430
Anexo	ANX	Aim	136.9p	132

Arix portfolio company signs Novartis collaboration

- Artios to receive $20m upfront payment and near-term research funding to support Novartis collaboration.
- Artios could receive up to US$1.3bn in discovery, development, regulatory and sales-based milestones.

Artios Pharma, a company backed by venture capital company **Arix Bioscience** (ARIX:190p), has entered into a three-year research collaboration with drug giant Novartis to discover and validate next-generation DNA Damage Response (DDR) targets to enhance Novartis' Radioligand Therapies (RLT). Artios is a leading DDR company that is developing a pipeline of precision medicines for the treatment of cancer.

In return for an upfront payment of $20m and near-term research funding to support the collaboration, Novartis gains the rights to select up to three exclusive DDR targets, and receive worldwide rights to be utilised with its RLTs. Artios will be eligible to receive discovery, development, regulatory and sales-based milestones of up to US$1.3bn, in addition to royalty payments on net sales of products commercialised by Novartis. The collaboration does not include Artios' lead programmes, ART0380, which is in clinical development, and ART4215, a first-in-class Pol Theta inhibitor.

In December, Artios entered a three-year collaboration with drug giant Merck to discover and develop multiple precision oncology drugs. Artios received US$30m in upfront and near-term payments, and Merck has the right to opt into exclusive development of compounds on up to eight targets. If Merck exercises the option, Artios will be eligible to receive up to US$860m per target, in addition to double-digit royalty payments on net sales of each product commercialised by Merck.

Artios management played key roles in AstraZeneca's discovery of Lynparza, a treatment for advanced ovarian cancer, another reason why both Merck and Novartis are backing them. Moreover, the collaborations strongly suggest that Arix has backed another major winner for its shareholders, having previously realised US$185m (£139m) for its 6.8 per cent stake in Velos Bio, a company that was acquired by Merck for US$2.75bn at the end of 2020.

Arix invested £13.8m for a 12.4 per cent fully diluted stake in Artios and the holding has a modest carrying value of £19m. However, investment bank Jefferies valued the Artios stake at £49m after the Merck announcement, but before news of the Novartis collaboration. Jefferies' NAV estimate of £339m (250p a share) includes cash of £185m (136p a share), so effectively Arix's investment portfolio of listed and unquoted companies is in the price for half book value. That's a harsh valuation given that Artios is only one of several portfolio companies that are approaching key milestones over the next 12 months.

I suggested buying Arix shares, at 168p, in my market-beating **2021 Bargain Shares Portfolio**, and the news from Artios adds further weight to the investment case. **Buy**.

Allied Minds value opportunity

- Chief executive steps down.
- Spin Memory seeking small funding round.
- Federated Wireless revenue to increase materially and funded through to 2022.

Allied Minds (ALM:24p), a Boston-based intellectual property (IP) commercialisation company focused on investing in early-stage companies with disruptive technologies, has fallen out of favour after Joseph Pignato stepped down as chief executive and portfolio company Spin Memory announced that it has been severely impacted by the Covid-19 pandemic.

Spin Memory is a leader in providing magnetoresistive random-access memory (MRAM) intellectual property. Through its collaboration with industry leaders, the company aims to transform the semiconductor industry by addressing the biggest challenge, memory, in next-generation electronics systems such as Artificial Intelligence, Autonomous Driving, 5G Communication and Computing at the Edge.

Although Spin Memory managed to "tape out" the demonstration chip co-developed with Arm Holdings pursuant to its joint development agreement, the Covid-19 enforced work-from-home orders in California delayed testing of the chip for nearly nine months. Testing finally commenced in the final quarter of 2020, and initial results are promising. However, the delay has affected Spin Memory’s ability to secure new customers, which means that it is now short of funding. A small funding round is expected to be pitched at a significantly reduced valuation.

That’s clearly not what I was expecting when I last suggested buying Allied Minds' shares, at 38.5p (**‘Technology winners with a huge margin of safety’, 19 October 2020**). Allied Minds’ 43 per cent stake in Spin Memory had a read through valuation of US$77m at the time and accounted for 24.6p a share of my NAV per share estimate of 65p.

However, even if you attribute nil value to the Spin holding, then analysts at Edison estimate that Allied Minds’ remaining portfolio companies and net cash of US$22.3m (6.7p a share) still have a combined value of £105m (43.3p a share). There should be upside to that valuation, too. That’s because the company's largest investment, a 43.1 per cent holding in Federated Wireless, which has a read-through valuation of $92.7m (28p) based on the last funding round, is on track to achieve its revenue targets.

Federated Wireless operates at the cutting-edge of shared spectrum Citizens Broadband Radio System (CBRS) technology, which supports the explosive growth of wireless data. The company has already delivered the industry’s first 4G/5G private wireless solution, Connectivity-as-a-Service (CaaS), a low-cost subscription, high-performance secure private wireless network delivered from the cloud. Federated also has agreements with channel partners AWS and Azure to drive commercialisation of the CaaS offering through their online marketplaces. 4G/5G secure private networks are a must to connect everything from robots, cameras, signage and machinery to virtual reality applications.

Importantly, Federated has sufficient cash to fund its growth into 2022 and Allied Minds' directors expect that if the company continues to achieve its planned key milestones, it will attract future equity financing in an up-round. That seems a sensible prediction given that Federated expects its revenue to grow by "significant multiples in 2021 compared with 2020 when it was first able to initiate its services... and more customers under contract are expected to begin to deploy in order to benefit by adding access to 3.5GHz CBRS". This will accelerate Federated's recurring revenue model.

So, although the investment in Allied Minds has clearly not panned out as I had planned, I feel that scope for profitable exits above current carrying values is being underrated with the shares priced 45 per cent below Edison's portfolio valuation. **Buy**.

Downing's investment performance gains momentum

- First quarter NAV total return of 8 per cent.
- NAV per share up a further 6 per cent since start of April.
- Contract wins for FireAngel and Synectics drive latest investment gains.

Downing Strategic Micro-Cap Investment Trust (DSM:75.5p) is delivering the investment performance I anticipated when I suggested buying the shares, at 65p, in my **2021 Bargain Shares Portfolio** when they were priced 20 per cent below book value.

The closed end fund's NAV per share increased by 8 per cent in the first quarter and a further 6 per cent in April, the latest gains being driven by major contract wins for portfolio companies FireAngel (FA.), one of Europe's leading developers and suppliers of home safety products, and Synectics (SNX), a leader in the design, integration and support of advanced security and surveillance systems. Downing's holdings in diversified financial services group Ramsdens (RFX) and Duke Royalty (DUKE) are performing well, too. Both are constituents of my **2021 Bargain Shares Portfolio**.

Although Downing's own share price has ticked up to 75p, it still trades on an unwarranted 14.3 per cent discount to the company's latest NAV of 88.13p – the historic average discount is only 8.8 per cent, according to Trustnet – even though several investee companies offer further re-rating potential. The combination of an ongoing narrowing of the share price discount to NAV coupled with portfolio investment gains are likely to drive a further re-rating of Downing's shares, the reason why they remain on my buy list. Buy.

£25 with free postage and packaging.

They include case studies of Simon Thompson's market beating Bargain Share Portfolio companies outlining the investment characteristics that made them successful investments. Simon also highlights many other investment approaches and stock screens he uses to identify small-cap companies with investment potential. Details of the content can be viewed on **www.ypdbooks.com.**