Ben Graham stock-picking contest results give insights on oil, coal

NORMAN ROTHERY
SPECIAL TO THE GLOBE AND MAIL
PUBLISHED MAY 6, 2018 UPDATED 4 HOURS AGO
FOR SUBSCRIBERS

Norman Rothery, PhD, CFA, is the founder of StingyInvestor.com.

Canada is closed for business. At least it might seem that way to oil producers as pipeline after pipeline succumbs to political and environmental pressure. The idea of transporting oil in a cost-effective and relatively safe manner across our great land appears to have gone up in smoke in recent years.

But, while oil is in the hot seat, coal is already in flames. Blasting mountains apart in an effort to collect and burn the notoriously dirty material is controversial at best.

Given coal's significant environmental concerns, the probability of developing a new coal export terminal in North America is vanishingly small. That's bad news for coal miners because it gives more bargaining power to the transportation facilities that exist to move it, which can no longer be duplicated. Westshore Terminals (WTE) is in the latter category because it runs the largest coal loading operation on the West Coast.

Westshore's interesting position was put under the microscope in the final round of the Ben Graham Centre's International Stock Picking Competition, which promotes value investing to MBA students. The contest recently wrapped up its fifth year under the able stewardship of Dr. George Athanassakos, who developed the value investing program at the Ivey Business School, which is part of University of Western Ontario.

This year the competition started with 23 teams, each composed of two or three students. The contestants hailed from Canada, France, Greece, India, South Korea, Spain, the United States and Britain.

In the first round each team picked a company to analyze from a shortlist of firms. For instance, the eventual winners studied KSB SE & Co. KGaA (KSB-DB), which sells pumps, valves, and related systems to customers across the world from its base in Frankenthal, Germany. It is a smaller stock with a market capitalization near €700-million ($1.08-billion) and sales of €2.2-billion. The students figure it's worth about €2.6-billion and pointed to it as a compelling buy.

After judging the first-round reports the field was narrowed to the three teams that were invited to Toronto for the final round. This year the finalists came from the Saïd Business School of the University of Oxford, the Ivey Business School, and the Cass Business School of the City, University of London. They vied for $14,000 in cash prizes thanks to the sponsorship of Burgundy Asset Management, Bristol Gate Capital Partners, Foyston, Gordon & Payne, Peters MacGregor Capital Management, and Robotti & Co.

The finalists had just one week to evaluate Westshore before they presented, and defended, their analysis in front of a panel of distinguished value investors including **Wayne Peters (Peters MacGregor Capital Management), Robert Robotti (Robotti & Co.), Kim Shannon (Sionna Investment Managers), Jeff Stacey (Stacey Muirhead Capital Management) and Evan Vanderveer (Vanshap Capital).**

Westshore Terminals owns, through a limited partnership structure, the largest coal loading facility on the west coast of the Americas. The terminal is located at Roberts Bank, B.C., and its customers moved 29 million tonnes of coal through it in 2017. Upgrades are expected to boost its capacity in the years to come.

The key valuation debate revolved around Westshore's bargaining power with its customers. The issue will soon be put to the test as old contracts come up for renewal.

The students were worried that the company won't fare as well in the negotiations as it had in the past because a major customer has been trying to boost capacity at a competing facility. Mind you, I think the students were too pessimistic on this point.

The three teams of finalists presented well and they should all be proud of their work. The students from Saïd took home the third-place prize of $2,000. Ivey came in second and netted $4,000. In a narrow victory, the team from Cass nabbed the top prize of $8,000.

Congratulations go to the Cass team of Varun Venkatraman and Akane Vallery Uchida. They pegged Westshore's intrinsic value at $19.80 a share, which is below its recent price of $22.62 a share, making it a "no-buy" in their view.