“Markets in an uptrend”

Hubens Capital
March 2019

Biweekly Newsletter

MARCH 1st

Make sure you read the Guidelines Newsletter and the Disclaimer Newsletter before reading this newsletter.

Financial markets have been quite stable in the last two weeks. There are no important market developments to mention at the moment. For the short and medium term, Brexit and the trade war remain the most important topics.

As advised in the previous newsletter as well, keep some cash available for unfavorable outcomes of Brexit and/or the trade war. For example, illiquidity like at the end of 2018 created huge opportunities for some small cap stocks. Be aware of that.

In this newsletter two new opportunities are being discussed. There are a couple of other stocks that are getting into promising price areas but are not yet interesting enough to write about.

The following opportunities are being discussed in this edition:

- ETM (Class C)
- VASTNED (Class A)

(Read the Guidelines Newsletter for explanations about the classes)

This edition also contains an update on:

- POSTNL (Class B)

S&P 500

HUBENS CAPITAL

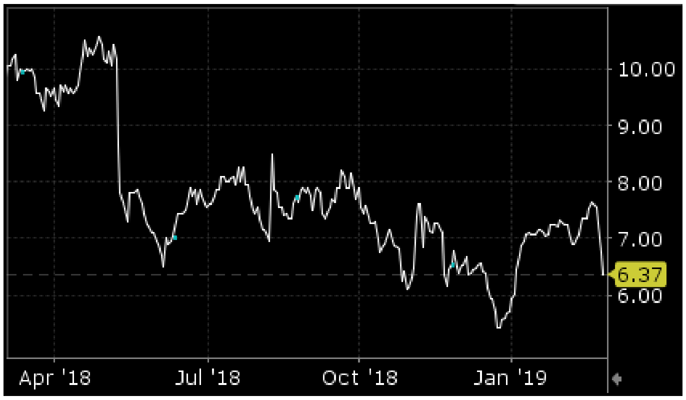
ETM (ETM)

"Turnaround according to the plan"

"Entercom Communications Corp. operates as a radio broadcasting company in the United States. The company owns and operates radio stations in various formats, such as news, sports, talk, classic rock, urban, adult contemporary, alternative, country, and others. As of February 20, 2018, it had a portfolio of approximately 235 radio stations, digital platforms, and live events. Entercom Communications Corp. was founded in 1968 and is headquartered in Bala Cynwyd, Pennsylvania" (Yahoo Finance).

STOCK	Entercom (ETM)
PRICE	$6.16
MARKET CAP	$0.88 bln
EST EPS 2019	$1.15
P/E 2019	5.4
NET DEBT / EBITDA ≈	4.4
DIVIDEND YIELD	5.8%

2018 was a year of transformational business for ETM after they completed the merger with CBS radio. CBS radio was roughly twice as big in market cap as ETM. The rationale behind the deal was straightforward. The CBS radio stations were underperforming and not much attention was being paid to those stations by CBS. ETM wanted to increase the CBS stations' profitability by cutting the costs and gaining synergies. ETM makes most of their money through advertising sales on its radio stations. To complete the merger ETM had to issue stock and take on a decent amount of debt. They are currently sitting on a relatively high amount of debt. $1.7 bln, 4.4x EBITDA. Before the merger ETM was trading around $11. Last year the shares have fallen. This was mainly caused by concerns about the profitability of the CBS stations, the debt load and a negative general opinion about the radio business.



2018 results and outlook 2019

On the 22nd of February, ETM announced their Q4 2018 and full year 2018 results. Revenue has been growing. On a same-station basis, net revenues for Q4 increased 4% to $411mln (compared to Q4 2017). Same station cash expenses went down with 2%. Adjusted EBITDA for Q4 went up 27% to $111mln (compared to Q4 2017). According to ETM, the transformation is going according to the plan. Earnings showed that the CBS stations net revenues went up with 3% and cost synergies totaled $58 million for the year. Total cost synergies are expected to be around $110mln (yearly) reached by the middle of this year.

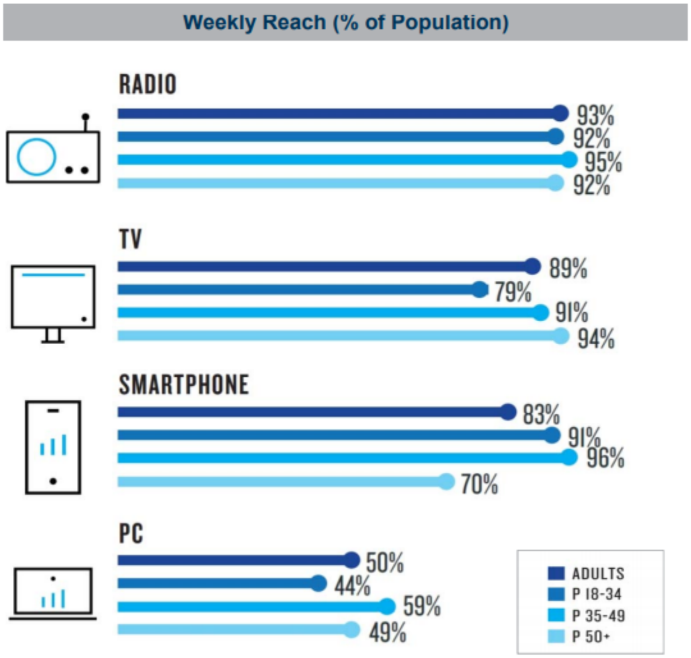
Adjusted (for one offs) earnings per share (EPS) 2018 was $0.84. ETM expects 2019 to be more profitable than 2018. They do not give a clear guidance but when looking at the cost synergies and continued revenue growth a fair expectation of the 2019 EPS will be somewhere between $1.10 and $1.20.

Is the debt load a concern for ETM?

The debt load is a concern in the sense that a company with a 4.4x EBITDA leverage needs to have a plan for how to reduce it so that it can eventually payoff the debt holders or refinance the debt. ETMs plan is to reduce the leverage to 2.5x EBITDA at the end of 2020. This will be funded by free cash flow and asset sales. ETM expects they can keep paying the $0.36 dividend a year and is planning to keep repurchasing shares for a value of $30mln a year. Other good news for investors is that the average cost of debt is with 4.8% low for a small cap company and that the majority of the debt is long-term and mostly due in 2024. On the short and medium term, the debt should not have too much influence on the stock price, unless EBITDA would tumble hard. Investors have been punishing ETM and might punish ETM more because of the bankruptcy of the market leader in the industry: iHeartsMedia. iHeartsMedia had much more debt: all their EBITDA was needed for interest payments for the last 4 years. They went into Chapter 11 and are still fighting to get out of bankruptcy. ETM's position is far from comparable but the developments at iHeartsMedia can be expected to have a negative influence on ETM's perception in the market.

Should there be doubts about the radio industry?

The US is divided in radio markets, for example there is a Washington DC market, Philadelphia market, Atlanta market, et cetera. ETM is the number two in the US radio market. ETM controls around 240 radio stations in 47 different markets. They control stations in all top 10 markets. As mentioned before the number 1 currently is iHeartMedia. They control around 800 stations in over 150 markets. The radio business in the US is a strong business. It is the number 1 reach medium. The weekly reach is 93% of the adult population.



Next to that as you can see below, the cost-effectiveness of advertising is still the most advantageous in the radio market.

Cost-effectiveness Reach Cost per Thousand (CPM) across media platforms	CPM ($)
TV	24.40
Newspaper	14.62
Radio	10.97

Streaming services like Spotify have not gained that much ground in the radio business. By far the most people are listening to the mainstream AM/FM radio frequencies.

Radio is 18x bigger than Spotify	Share of Audio Time Spent (%)
AM/FM Radio	52
Pandora	6
Spotify	3

The radio industry is large, strong and not dying soon. Though, it is possible that the smaller companies lose it againt the big ones like ETM. The radio business is a business where it helps to be one of the big players. The advantages in the economies of scale are huge and being dominant in radio markets means advertising cannot really avoid you.

Target and trading strategy

Last couple of days/weeks have been quite harsh for ETM shareholders. In the beginning of this year ETM climbed well above $7. Earnings were in line with expectations, but lately the stock decreased to below $6.50 on more than average volume. In a small cap like ETM, liquidity is an issue when relatively big flow steps in or for example algorithms start rule based selling. On up and downticks the pricing can exaggerate quite bit. There is not really a competitor in the radio industry with comparable financial key metrics to compare stock prices with. Therefore, I would be conservative with the target. Despite ETM being one of the market leaders, cost synergies to kick in this year, aggressively reducing the debt and paying a solid dividend, I would still not put more than 9 times expected earnings for 2019 on it. That would mean a target around $10. That means huge upside from the current price. I would prefer not to buy a full position yet. I would buy a first clip at this price and take advantage of a possible bigger overreaction in the stock. Below $6 I would add another clip and below $5.50 another one. As always, only add on those prices when there is not a significant fundamental change happening. If so, I will always try to let you know via an email update. When holding the stock and waiting, one receives a significant quarterly dividend ($0.09). The annual dividend income is around 5.8%.

A bad case for the stock would be an overreaction or some unfavorable news coming out bringing the stock below the lows of 2018, meaning <$5. This would then, in case no fundamental changes happen, be an even larger opportunity.

ETM is suited for in an offensive (maybe neutral) portfolio.

Allocation	2.5% (5% < $6, 7.5% <$5.5)
Recommendation	Buy < $7
Current level	$6.16
Target level	$10 (+62%)
Bad case	$5 (-19%)
Class	C

Execution idea:

Buy 2.5% of your portfolio now, an extra 2.5%<$6 and an extra 2.5%<$5.5.

VASTNED (VASTN.AS)

“Safe income investment”

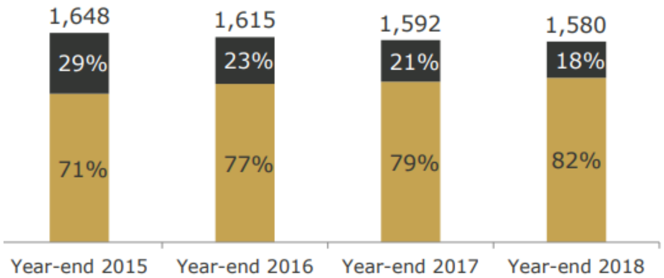
“Vastned is a listed European retail property company (Euronext Amsterdam: VASTN) focusing on ‘venues for premium shopping'. Vastned invests in selected cities in Europe with a clear focus on the best retail property in the most popular high streets in the bigger cities. Vastned's tenants are strong and leading international and national retail brands. The property portfolio had a size of approximately €1.6 billion as at 30 September 2018” (Yahoo Finance).

STOCK	Vastned (VASTN.AS)
PRICE	€33.30
MARKET CAP	€600 mln
EST EPS 2019	€2.05
P/E 2019	16.2
LOAN TO VALUE ≈	39%
DIVIDEND YIELD	5.7%

Vastned is a small cap but a much less volatile stock than for example ETM or GME. Vastned is suited for a defensive portfolio but can be part of any portfolio. Generally, I am not a big fan of retail/commercial property investments. With the obvious increasing competition from e-commerce, lots of retail shops have to close their doors. Mainly the shops that are not located on the prime/best locations in the cities. I like Vastned as they focus on owning property on the best locations.

Core city assets focus

In the last couple of years Vastned has been focusing on making their retail properties ‘crisis proof’. Their CEO, Taco de Groot, is not a massive fan of ‘average’ retail properties and decided to build the portfolio in such a way that it will be able to cope with an economical downturn. Margins for lots of retail companies are under pressure, especially the ones on unfavorable locations. The CEO put the focus on increasing the share of core city assets in the portfolio. Core city assets are defined as high street assets in large European cities. According to him, location is one of the keys to success of a retailer. Next to that the retailer of course needs to have good quality and a satisfying service. That is nothing new. In 2015 Vastned had around 71% of their portfolio existing out of core city assets. Currently they have increased this to 82%.



The portfolio is doing well with an occupancy rate of 98.6%. Core city assets have an occupancy rate of 99.3%.

Key figures 2018 (%)	Core city assets	Mixed retail locations	Total
Occupancy rate (Dec 2018)	99.3	96.7	98.6
Like-for-like gross rental growth	1.6	$649.9	0.8
Value movements 2018 (€ mln)	1.0	(2.1)	0.4
Value (€ mln) (Dec 2018)	1290	290	1580
Share of total portfolio	82	18	100

Portfolio allocation (€ mln)	Core city assets	Mixed retail locations	Total	% of Total
Netherlands	549	136	685	44
France	415	0	415	26
Belgium	232	151	383	24
Spain	94	3	97	6
Total	**1290**	**290**	**1580**	**100**

Points of attention

Vastned is not invested in the UK and sold their investments in Turkey over the last couple of years. Vastned still sees the uncertainty around Brexit as something to keep an eye on. Next to that, international trade wars, the world debt burden and a slowing economy are factors that can affect the business of Vastned. Vastned is in a very healthy financial state and ready to cope with these uncertainties. In the last couple of years Vastned deleveraged their portfolio. Currently they have a loan to value of 39%. Down from 41.8% in 2016.

Outlook 2019

The focus of Vastned will be on maintaining the high occupancy rate of the portfolio. One of the main goals is to find a good renter for one of their key assets in Paris on the Rue de Rivoli. H&M is going to leave there. Important is to find a good new tenant and to keep the vacancy period limited. Next year EPS will be slightly lower than this year, mostly because of the expected temporary vacancy on Rue de Rivoli. Vastned expects to make between €2.00 and €2.10 in 2019. This year they are paying €2.05 dividend over 2018. With the same payout ratio, the dividend in 2020 (over 2019) is likely to come in around €1.90. Close to 6% annual dividend.

Why owning Vastned?

An investment in real estate is quite a useful diversification in probably any portfolio. You can buy an apartment or retail property yourself and rent it out. Or you can for example invest in a stock like Vastned. Vastned is quite attractive with a 6% dividend income and expected 'safe' and stable future rental incomes from core city assets. With a PE of 16, Vastned does not look cheap compared to other stocks that have been in this newsletter. Compared to a competitor like Unibail, Vastned looks slightly more expensive. But Unibail owns a lot of property outside the best locations and has organizational issues after they did a big acquisition.

An interesting thing to mention is that the net asset value (NAV) of the portfolio at the end of 2018 has gone up to €46.40. This means a discount of nearly 30%, creating a margin of safety. The Belgian part of Vastned trades with a significant smaller discount of 12%. The Belgian stock currently trades around €47 while the NAV is €53.31.

All in all, owning Vastned is a safe investment in high quality retail property that pays a solid 6% dividend and

Vastned is well prepared in case of an economic downturn. It seems fine to buy a clip of stocks around this price and to buy some extra on downticks below €32. Vastned is a buy and hold unless the price gets close to NAV, say above €40.

Vastned is very suited for a defensive portfolio.

Allocation	3.75% (7.5%<€32)
Recommendation	Buy < €34
Current level	€33.30
Target level	€40 (+20%)
Bad case	€29 (-13%)
Class	A

<u>Execution idea:</u>
Buy 3.75% of your portfolio now and 3.75% below €32.

UPDATE POSTNL(PNL.AS)

“Takes over Sandd to create a monopoly”

On Monday the 25th of February, PostNL announced its earnings that were quite in line but more importantly they announced the takeover of Sandd. As discussed in the previous newsletter, this takeover will lead to a monopoly for PostNL in the post letter market. They will achieve a market share of 93%. As discussed before, the takeover has to be approved by the Autoriteit Consument & Markt (ACM). The ACM is probably not just going to approve it without any negotiations. A possible scenario is that the ACM approves it under certain conditions, such as that PostNL cannot exaggerate in raising the stamp prices in the upcoming years. With the takeover being announced already, PostNL is putting pressure on the ACM. The ACM knows that the Dutch government is in favor of the transaction and that the government can overrule the ACM.

The takeover is a step forward towards the monopoly in the post letter market and with that the significant improvement in operating income of €40mln to €60mln. PostNL ticked up 10% on the takeover announcement and gave back a decent bit of those profits in the days after.

With the earnings being in line and the favorable news of the takeover I reiterate the target level of €3.5. The execution idea in the last newsletter was to buy 2.5% (at €2.24) two weeks ago and 2.5% on favorable news without any gigantic uptick of course. This would mean buying an extra clip of stocks now at €2.38 to bring up the allocation to 5%.

COMBINED PORTFOLIO

Stock	Class	Allocation	Execution idea
GameStop (GME)	C	<5%	<5%
Macy's (M)	B	<7.5%	<3.75%
PostNL (PNL.AS)	B	<5%	<5%
ETM (ETM)	C	<2.5%	<2.5%
Vastned (VASTN.AS)	A	<3.75%	<3.75%

The execution idea column represents the allocation if you would follow the execution idea for the stock which often means buying stocks based on the price development.

OFFENSIVE PORTFOLIO (Deep value/Distressed)

Stock
GameStop (GME)
Entercom (ETM)

DEFENSIVE/NEUTRAL PORTFOLIO (Safe and Quality)

Stock
Macy's (M)
PostNL (PNL.AS)
Vastned (VASTN.AS)

AUTHOR

Sven Hubens, owner of Hubens Capital. Traded nearly 8 years successfully for Optiver as an option trader. Experienced the different ways in which markets can behave. Expert in assessing risk rewards. With this newsletter I want to show you some insight in favorable risk reward trades for your personal portfolio. Especially in the smaller stocks, huge opportunities now and then arise. Because of algorithms causing it, or illiquidity, tax loss selling, short sellers, etc.

TRADING LESSON

"John Maynard Keynes: The market can remain irrational longer than you can remain solvent"

Do not bet tell yourself that an investment cannot go more against you than it did. Do not tell yourself that one of your stocks has no downside left. You can be wrong. Or the market is wrong. The market can be wrong for a long time, probably longer than you or your wallet can wait. I have been professionally trading options on the Bund (10-year German government debt). When the yield on bunds went below 1%, consensus among a lot of respective knowledgeable persons was that it could not go much lower, like to 0%. Mario Draghi kept printing money and buying bonds and he achieved a negative yield for 10-year German in the summer of 2016. Super Mario!