

# How the pros invest for



# RETIREMENT

**if their options were really limited**

## We asked three top fund managers for their strategy if they had to count on just one stock for their retirement

**ANY FINANCIAL MANAGER WILL TELL YOU THAT IT'S A MISTAKE TO BET ON JUST ONE STOCK.** In fact they would advise you to diversify the retirement pot to include other asset classes besides equity. Debt – for its capital preservation and income generation – is highly recommended when a saver is approaching retirement age. Alternative asset classes are also now available although these tend to be somewhat illiquid and suitable for only those with a sizeable pot of savings.

Equities are an attractive option for the

long term and every portfolio should have a generous allocation. For this exercise we asked three fund managers to recommend the stock they would buy if they were allowed to invest in only one company for their retirement. Long term for the purposes of this stock pick was 15 years. It would be a grave mistake to run off and buy these stocks to hold for the next 15 years. Firstly these fund managers ignored the short term valuation in making their pick. So now may not be the right time to pick up some of these stocks. Secondly

no fund manager buys and then blindly holds a share. They would constantly be comparing the stock's performance and risks to other investment opportunities in the same asset class. Thirdly fund managers will use a portfolio approach to manage the risk versus reward equation. They will also be weighing constantly the allocations between the asset classes to minimize risk and maximise returns. Investing in one stock will either be too risky or yield less than optimal returns or result in both.

So what's the point of this exercise? There is just one insight we could glean. Fund managers will follow their own investment philosophy. However to a great extent their hands will also be tied because they are investing other people's money and are bound by the objectives of the fund they are managing. Their personal investments don't have such restrictions.

We asked them to recommend the stock they would invest all their retirement savings in. The other directions were that it should not be a diversified company and that its returns should be higher than average. We told them to ignore the company's short term performance and its current valuation because with a 15 year horizon these blips will not matter. Of course we asked that they stick to companies with reasonably good corporate governance but a responsible performance in the past is no guarantee for the future. We also nudged them to look at the mid cap stocks in particular, believing that the star performers will likely be among them. We didn't ask for any forecasts because with the long outlook it's difficult to depend on anything but broad economic demand trends.

## AVANCKA HERAT

**DIRECTOR:** NATIONAL ASSET MANAGEMENT LIMITED

**COMPANY:** ASIRI HOSPITAL HOLDINGS (ASIR)

**SHARE PRICE:** RS20

**PRICE TO BOOK VALUE:** 4.7 TIMES

**HISTORICAL PE:** 20.8 TIMES



Asiri Hospital Holdings is a stock owned by mutual funds that Herat manages at NAMAL. He picks Asiri now as the stock he would buy personally. Asiri Hospital Holdings is the largest private hospital operator in the country with over 500 beds and over 12% market share (both in-patient and out-patient) in patient care. The company is expanding into major regional cities including a 100 bed hospital in Kandy. It's controlled Softlogic Holdings and Actis Group made a PE investment there in 2012.

Herat says Asiri's is a very stable business model with low sensitivity to business cycles and the hospital business is one that minimizes the working capital requirements. Demographic and lifestyle trends also favour the business. "The aging population, higher per capita income levels, urbanization and changes in lifestyles will create increasing opportunities in the healthcare sector which Asiri is best placed to capitalise on due to a well established brand name, capable management and improved system and processes."

Its diagnostics business is also highly profitable. A push for higher market share will enable the company to maintain EBITDA margins of over 30%, the highest in the sector. Herat says Asiri will also benefit from the increase in medical insurance penetration and the decline in public spending in healthcare. In the last decade public spending on healthcare fell from the equivalent of 1.65% of GDP in (2003) to 1.38% of GDP in 2013. Herat expects a shortage of hospital beds by 2015.

Although we didn't request forecasts Herat says he expects over 25% annualised earnings growth in the next 5 years. He predicts the healthcare sector is unlikely to be subject to price regulations and indiscriminate taxes.

## ALASTAIR CORERA

DIRECTOR: ORION FUND MANAGEMENT

COMPANY: LANKA IOC (LIOC)

SHARE PRICE: RS39

Fund managers were picking companies that were producers or suppliers of staples. Demands for staples are likely to grow in step with nominal economic growth if not faster and downturns won't hit demand as badly. Corera says LIOC share is likely to grow at a higher than average rate because, "its main market of fuel for vehicles is an established one and may not display above average growth." However it's a large market and LIOC's main competitor is not the most dynamic, and faces several challenges. This will provide space for LIOC to gain market share. Over this type of tenure, ability to maintain profitability is more important. The risk to profitability on account of potential competition that the Company could face is something that you have to really watch out for. In this respect LIOC has some safeguards. Its activities are somewhat insulated as entry of new players into its business is limited due to licensing requirements and the difficulty in replicating a retail network.

He also justifies the macro case for the company, "economic growth will drive demand for its products. LIOC is also well positioned to benefit from the investments and efforts undertaken to enhance Sri Lanka's appeal as a logistics hub given its presence in the bunkering and aviation fuel market."

NET ASSETS PER SHARE: RS32

HISTORICAL PE: APPROXIMATELY 4 TIMES ON 13/14 EARNINGS, BUT PROBABLY HIGHER ON A NORMALISED BASIS AS LAST YEAR WAS AN EXCEPTIONALLY GOOD YEAR FOR THEM.



## CHITRA SATHKUMARA

CHIEF EXECUTIVE: CEYBANK ASSET MANAGEMENT

**COMPANY:** KELANI TYRES (TYRE)

**SHARE PRICE:** RS67

**NET ASSETS PER SHARE:** RS28

**HISTORICAL PE:** 8.3 TIMES

Sathkumara is one of the godfathers of portfolio management in Sri Lanka. Kelani Tyres, his pick when pushed for that single stock he may count on for retirement is a firm with a modest Rs5.4 billion market cap.

TYRE is the holding company of the joint venture with CEAT India, CEAT Kelani Holdings, and is the dominant player in the Sri Lankan tyre market fulfilling nearly 50% of the tyre requirement of the country. It holds 57% market share in the truck and bus category, 32% in Radials, 46% in 3-wheelers, 19% in motor cycles and 73% in the agricultural segment.

Last year it made a net profit of Rs658 Mn with EPS of Rs8.19. Kelani Tyres PE at 8.3 times compares well against the manufacturing sector multiple of 15 and the 14 times market multiple. Earnings growth was 47% last year and Chitra Sathkumara expects earnings to jump 37% in the current financial year.

“The tyre industry is attractive because it’s driven by economic growth and there is little competition due to high entry barriers. TYRE has a strong brand image with CEAT and offers the best value proposition in the market on performance, price and product range.”

Capacity expansion, growing product portfolio & market share is expected to drive earnings for years. It has an advantage because it operates in a country which produces high quality natural rubber which accounts for 40% of production cost. Declining rubber

prices will further boost the bottom line. He also highlights that strong cash flows can fund capital expenditure at the firm. Dividend payments are expected to yield 5%.

CEAT is a global tyre brand present in 110 countries and Kelani’s export sales are rising. “Further the Sri Lankan Government encourages import substitution and I don’t see any substitute for tyres in the near future.”

