



What you won't see on the front page of the news – Roy Chen comments on recent reporting season.

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Roy Chen, Head of Investments at Global Value Investors offers some comments and observations on the recently concluded reporting season for 2008.

“Since the inception of the GVI Global Industrial Share Fund, this 2008 reporting season has been one of the most challenging given the severe downturn of the global markets from September last year. No country has been spared in the current crisis and all companies in the GVI portfolio have been impacted.”

“The biggest comfort we can draw from the 2008 results is the sustainability of the dividend payments and balance sheet strength of the companies that we hold.

In the GVI Global Industrial Share Fund, 50% of our holdings are expected to increase dividends for 2009 with another third of the portfolio likely to maintain their dividends for the year.

“You don't get to read this sort of information on the front page of the financial news, but there are excellent companies that are soundly run and are able to navigate through the financial storm.” says Roy Chen. He added “The reasons for this are that most companies we hold can generate exceptional cash flows as well as having solid balance sheets.

In other cases, companies have the operational flexibility to reduce and defer capex and opex without hurting the business, thereby maintaining their cash return commitment to shareholders. “Companies such as GDF-Suez in the utilities sector and Telefonica in the telecom sector have given guidance on dividend increase up to 2011 even in this difficult climate”.

2009 Earnings and the Challenging Operating Environment

After reporting healthy increases in earnings for 2008 over 2007, the biggest question for the majority of companies relates to earnings for 2009 and 2010.

Most companies in the telecom, health care, consumer staples and utilities sectors within the GVI portfolio should continue to deliver reasonable earnings growth – such are the defensive qualities of these sectors.

“Even in the less defensive discretionary sector, we still expect an overall increase in earnings.”

However, it is expected that companies in the industrial, material, financial and energy sectors will see a substantial decline in earnings. However, we note the integrated energy companies in the GVI portfolio are still expected to record solid earnings that would be the envy of many, but obviously coming off from an exceptional 2008.



2010 Earnings – “Based on our projections the companies in our portfolio that we expect to record a decline in 2009 earnings, will see a rebound in 2010 earnings.”

Balance Sheet – “No GVI-held companies have liquidity or funding issues because of cash on hand and very good access to capital markets.”

“The current rally which started on 9th March thus far has not rewarded many of our companies that possess the important GVI investment characteristics of balance sheet strength, strong free cash flow and sustainably attractive dividend payments. Yet, we are firmly of the view that our process which focuses on companies that exhibit the capacity to grow earnings and dividends over time, supported by a strong business model and distinct competitive advantage in their respective sectors, will produce healthy long-term total returns.

“For the GVI investment team there is a silver lining to this correction – opportunities to own some of the greatest enterprises for the long-term at attractive prices not available just a year ago.”