

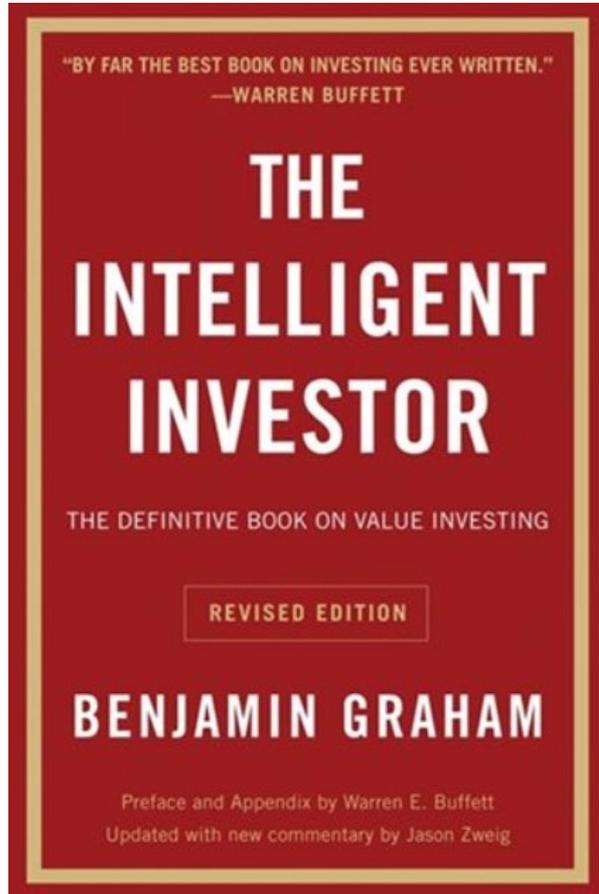


VALUE INVESTING

CENTRE FOR THE ADVANCEMENT OF VALUE INVESTING EDUCATION

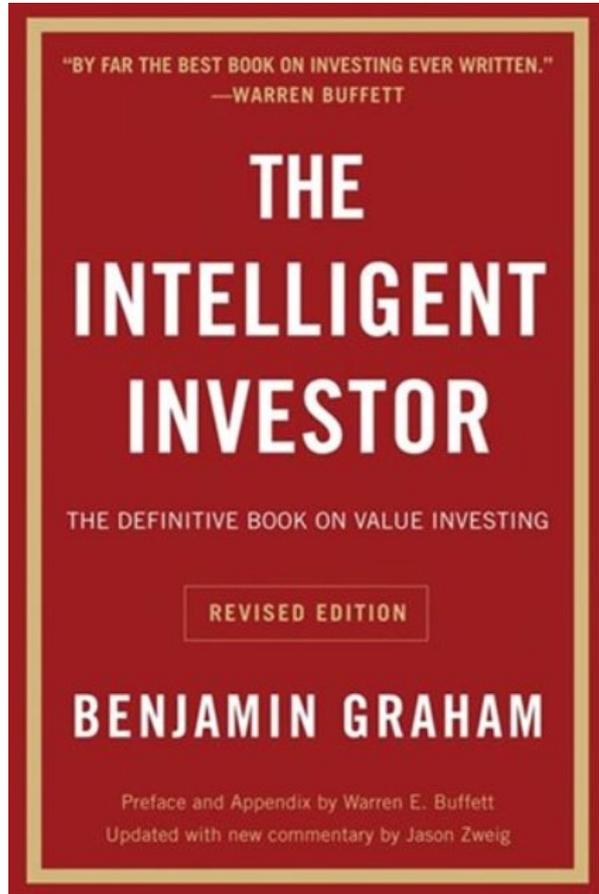
July 26, 2019

AN ENTERPRISING INVESTOR



“Someone with the willingness to devote time and care to the selection of sound and attractive instruments” - Benjamin Graham

AN ENTERPRISING INVESTOR



“The enterprising investor will buy... secondary common stocks, corporate bonds and preferred stocks at bargain levels” - Benjamin Graham

AGENDA

- ▶ What do we do?
- ▶ Approach to valuation
- ▶ Approach to risk
- ▶ Ewing Morris Playbook
- ▶ Case studies
- ▶ Questions

WHAT DO WE DO?

SMALL CAP

NORTH AMERICAN (CANADIAN BIAS)

FULL CAPITAL STRUCTURE

APPROACH TO VALUATION

TERMINAL VALUE RELATIVE TO INTRINSIC VALUE

	1	2	3	4	5	Terminal
Cash Flow	5.2	5.5	5.7	6.0	6.3	105
Discounted	4.8	5.5	5.7	6.0	6.3	71.5
Intrinsic Value	100		30%			70%

Assumptions:

Terminal Growth Rate = 2%

Discount Rate = 8%

HOW MUCH IS THIS HOUSE WORTH?

For Sale
\$899,000

184 PAUL ST
London, ON, N6H 1L2

6 beds • 8 baths

[View Full Listing](#)



VALUATION TECHNIQUES

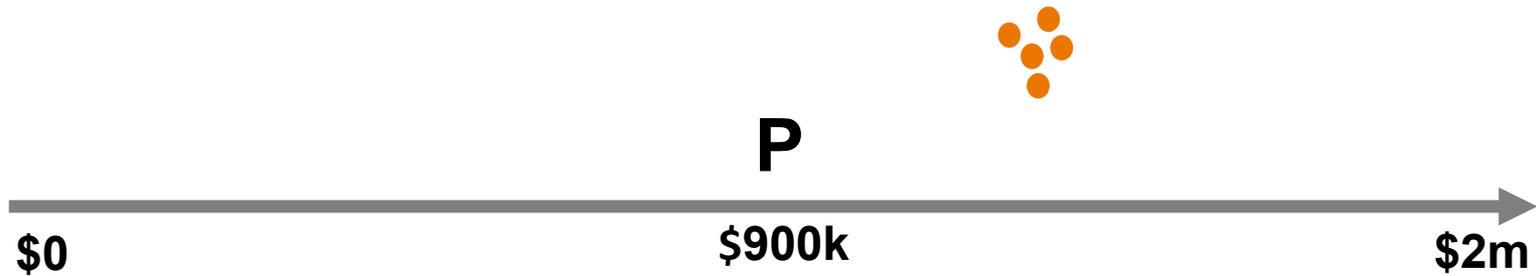
REPLACEMENT VALUE

COMPARABLE TRANSACTIONS

DISCOUNTED CASH FLOW

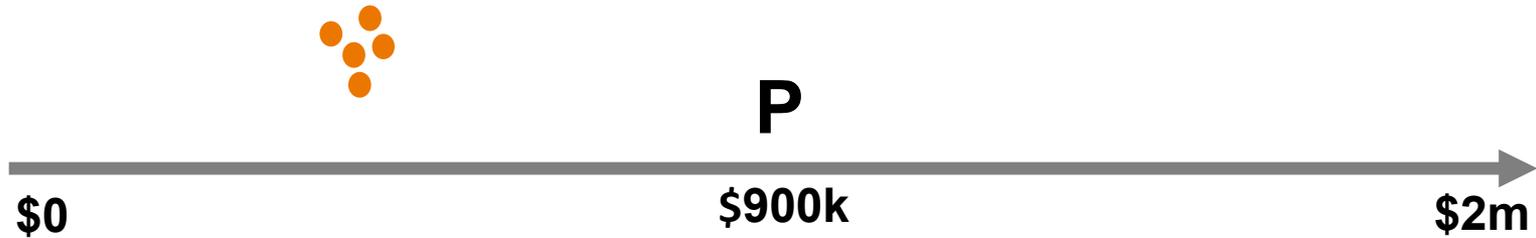
MULTIPLE (I.E. CAP RATE)

FAIR VALUE IS RELATIVE



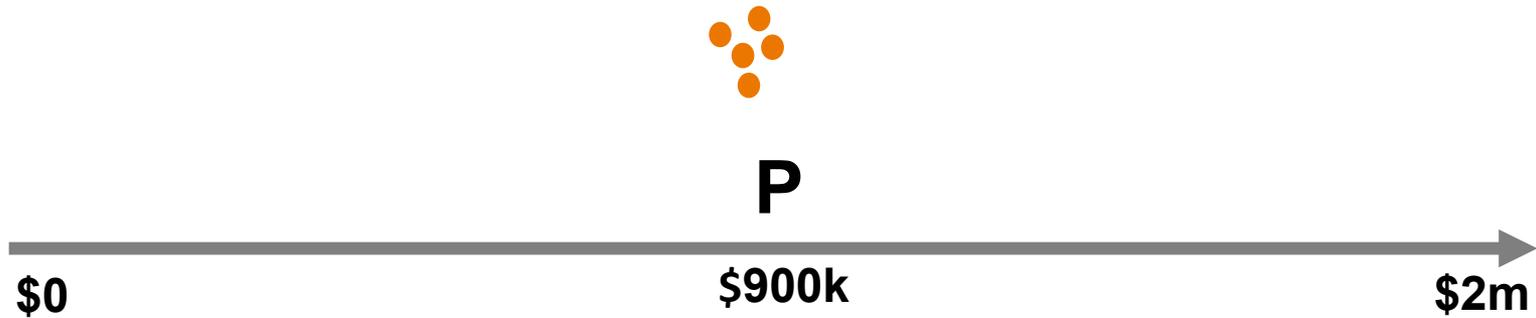
CHEAP

FAIR VALUE IS RELATIVE



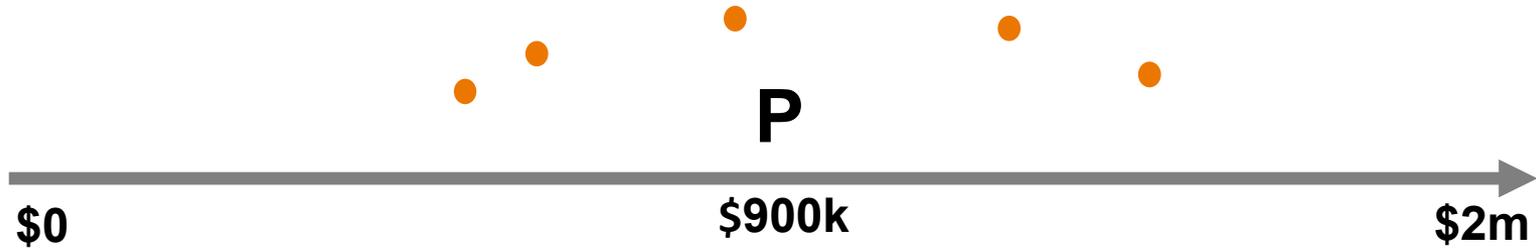
EXPENSIVE

FAIR VALUE IS RELATIVE



FAIR

FAIR VALUE IS RELATIVE



?

APPROACH TO RISK

VALUATION

LEVERAGE

INDUSTRY CHANGE

THE PLAYBOOK

INVESTMENT DRIVER	EQUITY INVESTMENT	DEBT EQUIVALENT
Business	Great Business	Durable Business
People	Great Capital Allocator	Credit Maker
Structure	Cheap Asset	Structural Value



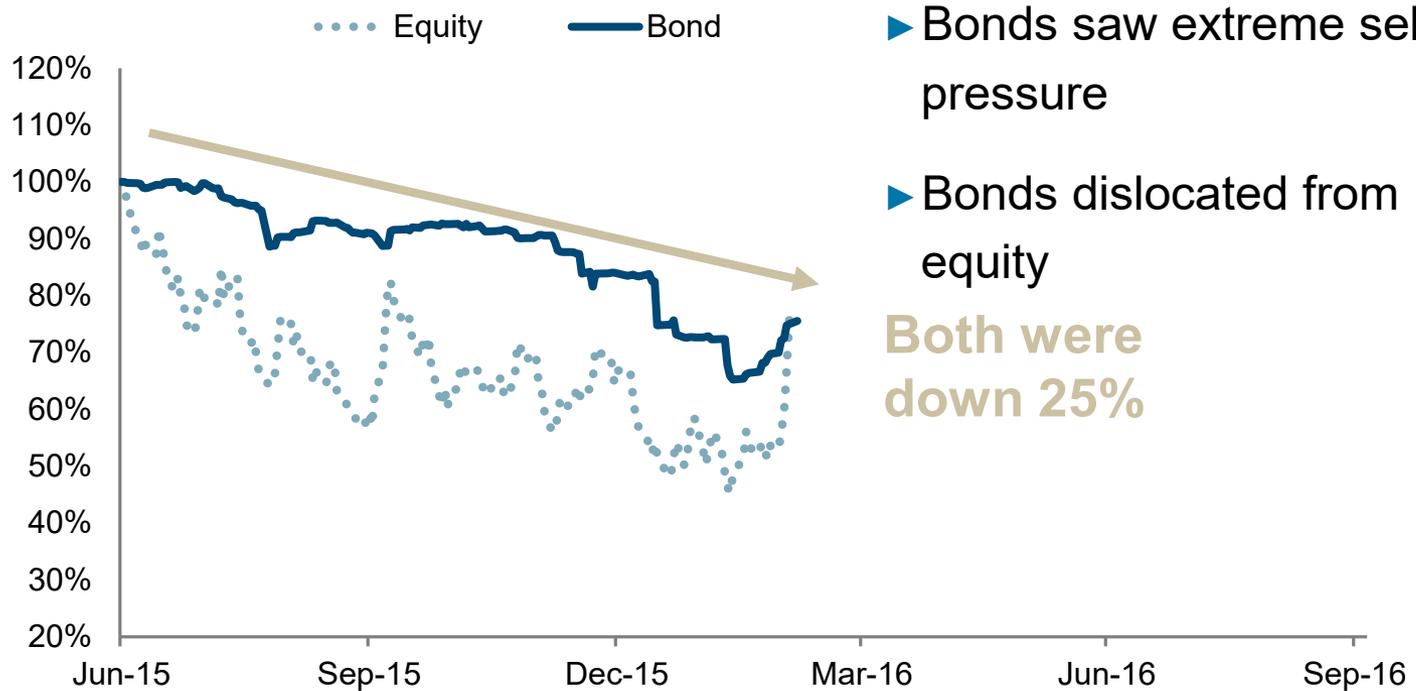
CASE STUDIES

PRECISION DRILLING (TSX:PD)

LARGEST DRILLING RIG CONTRACTOR IN CANADA

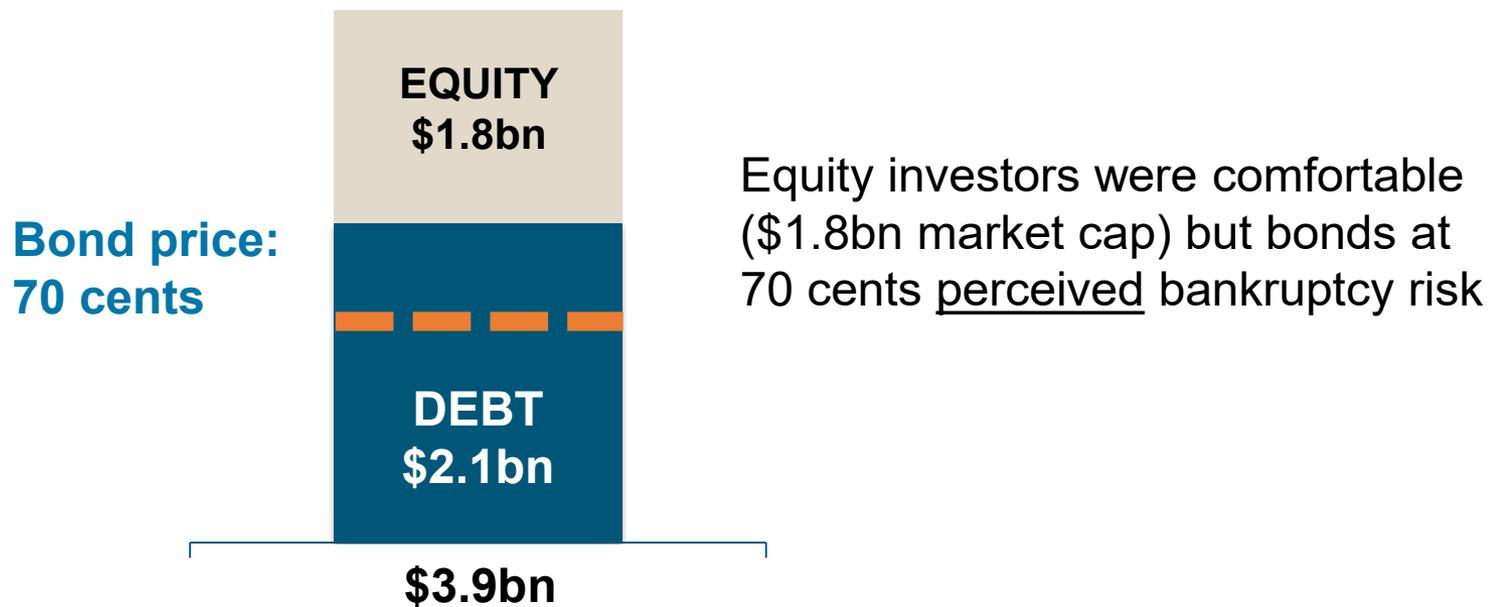


DEBT VS EQUITY



Source: Company filings.

DEBT VERSUS EQUITY



Source: Company filings.

DEBT VERSUS EQUITY

ACTUAL RISK WAS FAR LOWER THAN PERCEIVED RISK

▶ High asset coverage



~2x

▶ Manageable obligations



2019

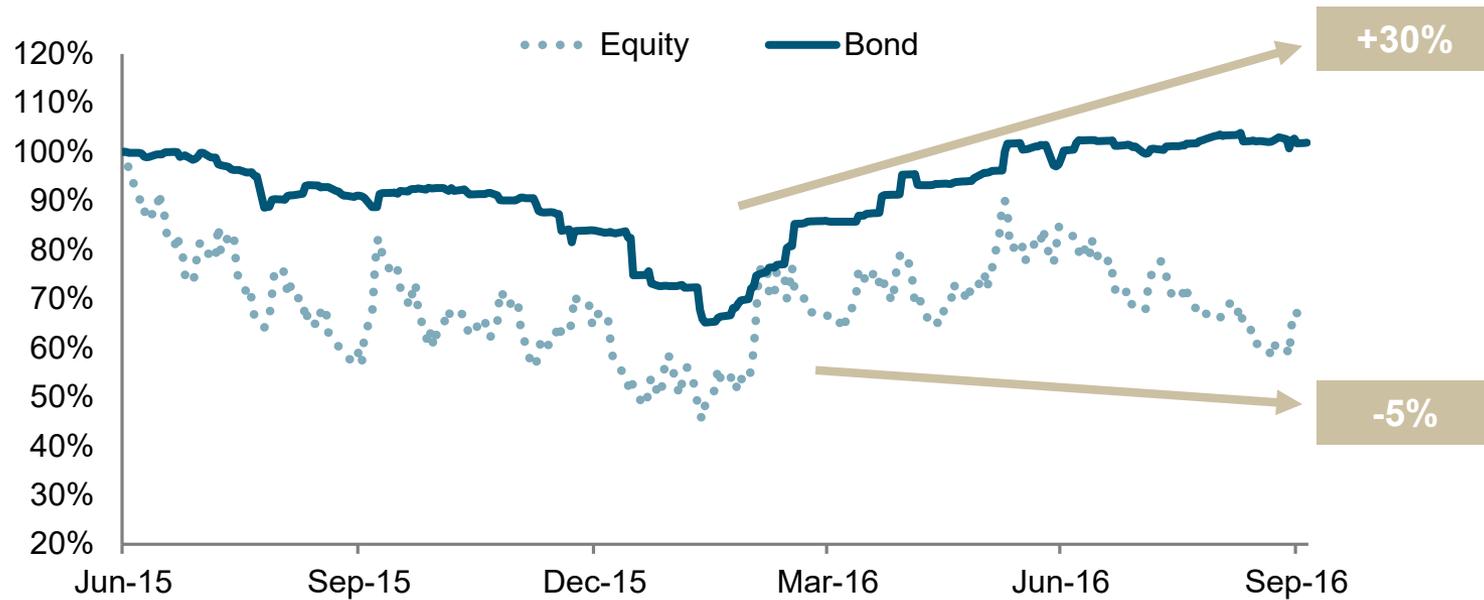
▶ Strong liquidity



\$1.2 bn

DEBT VS EQUITY

WHAT HAPPENED?



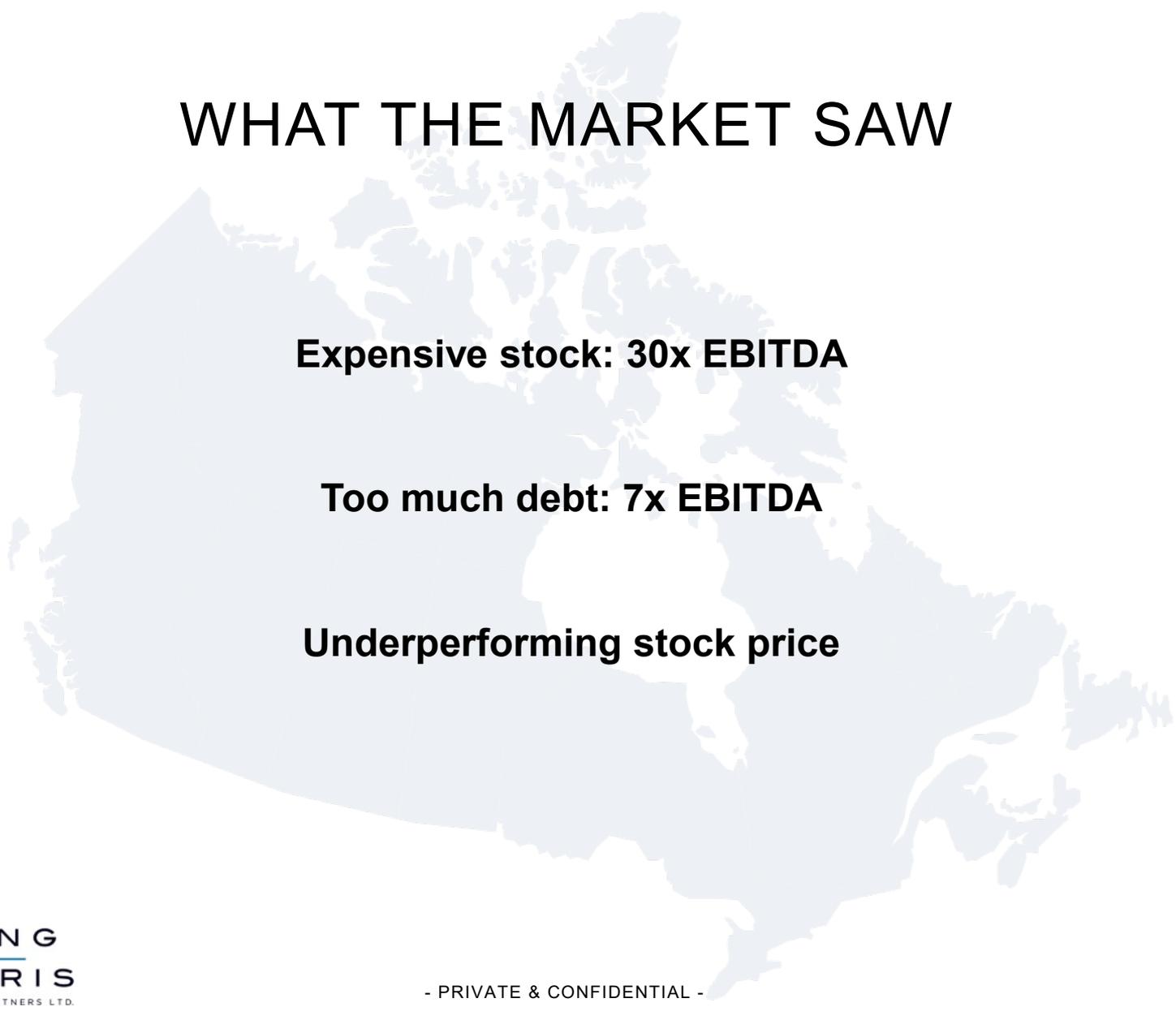
Source: Company filings.

NORBORD INC. (TSX:OSB)

**LEADING GLOBAL MANUFACTURER OF WOOD-BASED PANELS
(ORIENTED STRAND BOARDS)**



WHAT THE MARKET SAW

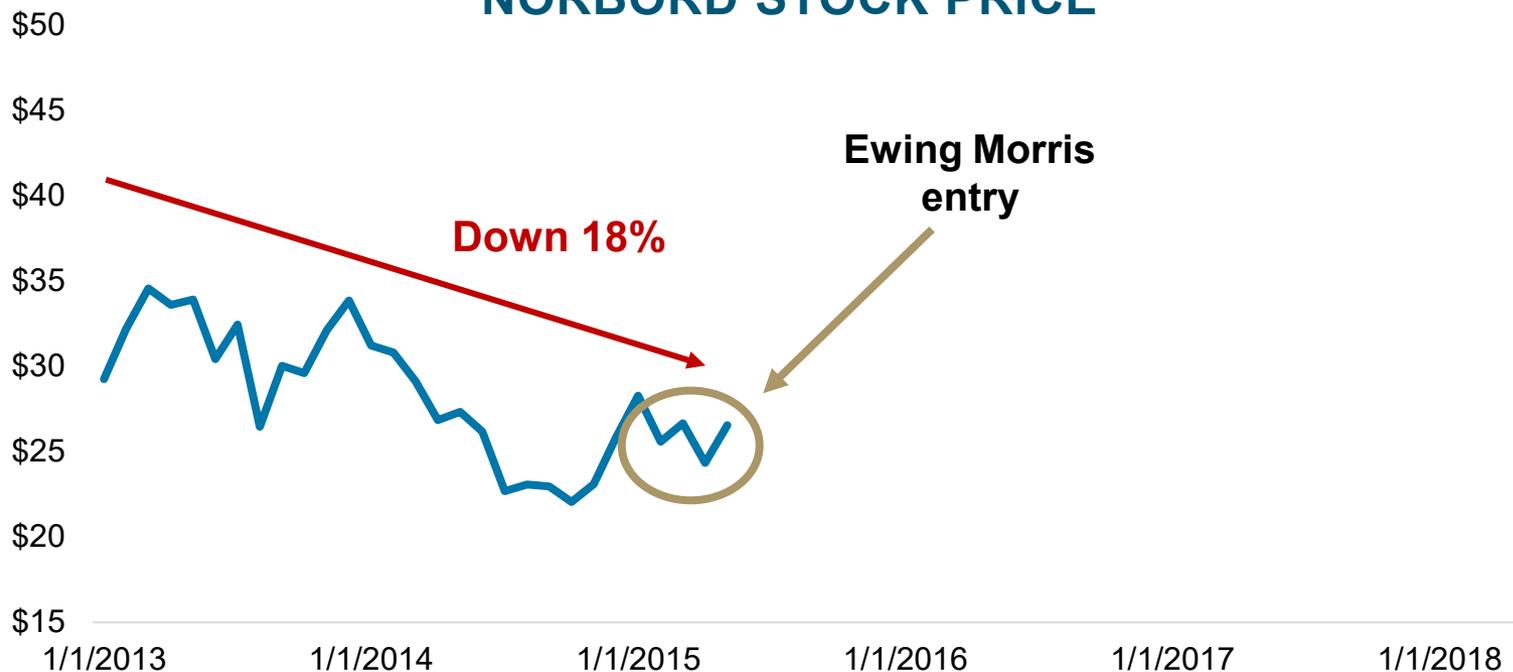


Expensive stock: 30x EBITDA

Too much debt: 7x EBITDA

Underperforming stock price

NORBORD STOCK PRICE



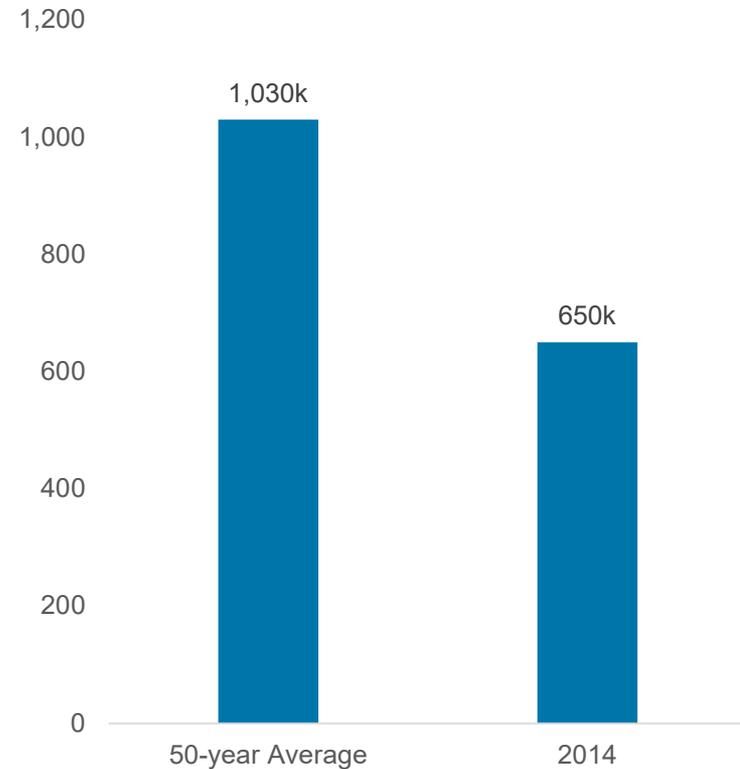
Example is not representative of entire portfolio. Source (OSB Share Price Data): Yahoo Finance.

BUT AFTER A CLOSER LOOK...



BUT AFTER A CLOSER LOOK...

1. Depressed U.S. housing market



Example is not representative of entire portfolio. Source: U.S. Census Bureau.

BUT AFTER A CLOSER LOOK...

1. Depressed U.S. housing market
2. Depressed commodity price



Example is not representative of entire portfolio. Source: Company filings.

BUT AFTER A CLOSER LOOK...

1. Depressed U.S. housing market
2. Depressed commodity price
3. Transformed industry

- ▶ 3rd and 5th industry players merged in 2015
- ▶ Former #1 was gradually exiting the industry

Example is not representative of entire portfolio. Source: Company filings.



WHAT WE SAW

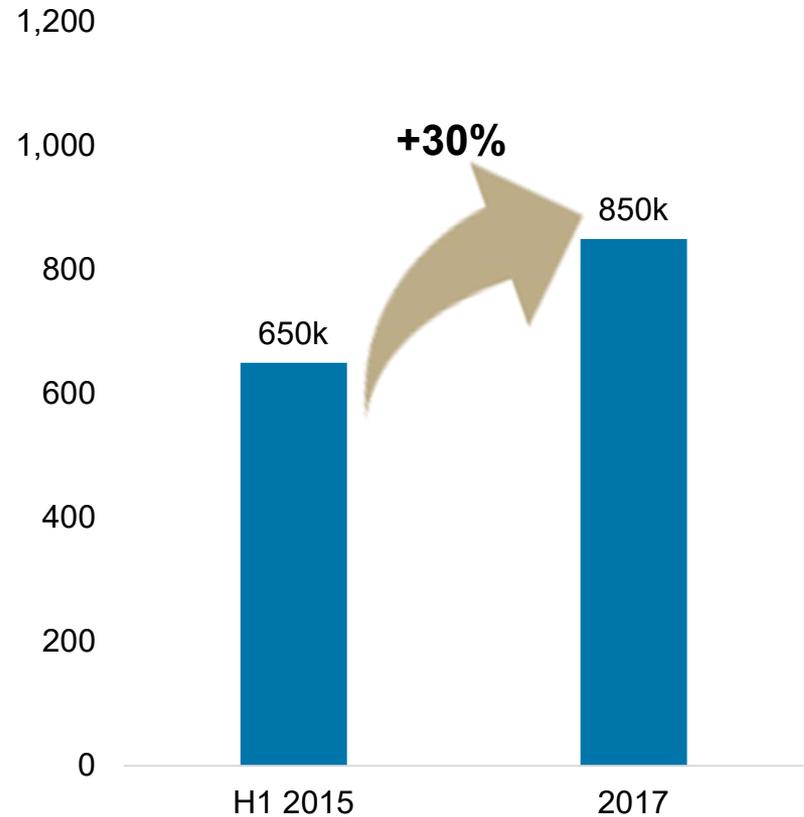
Undervalued stock

Solid balanced sheet

Compelling investment opportunity

WHAT HAPPENED?

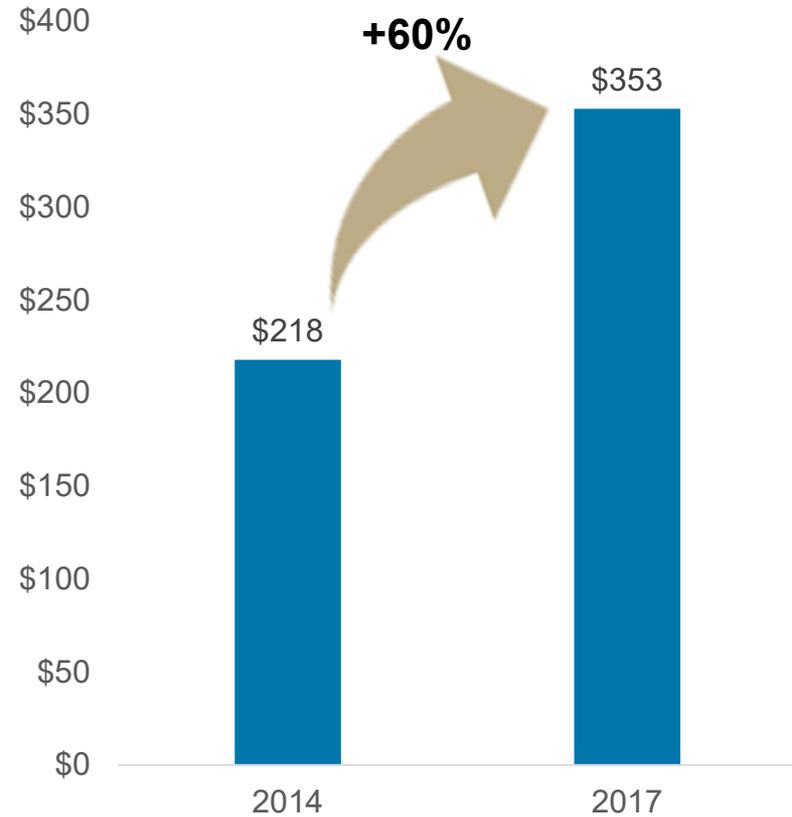
1. Housing starts to rebound



Example is not representative of entire portfolio. Source: U.S. Census Bureau.

WHAT HAPPENED?

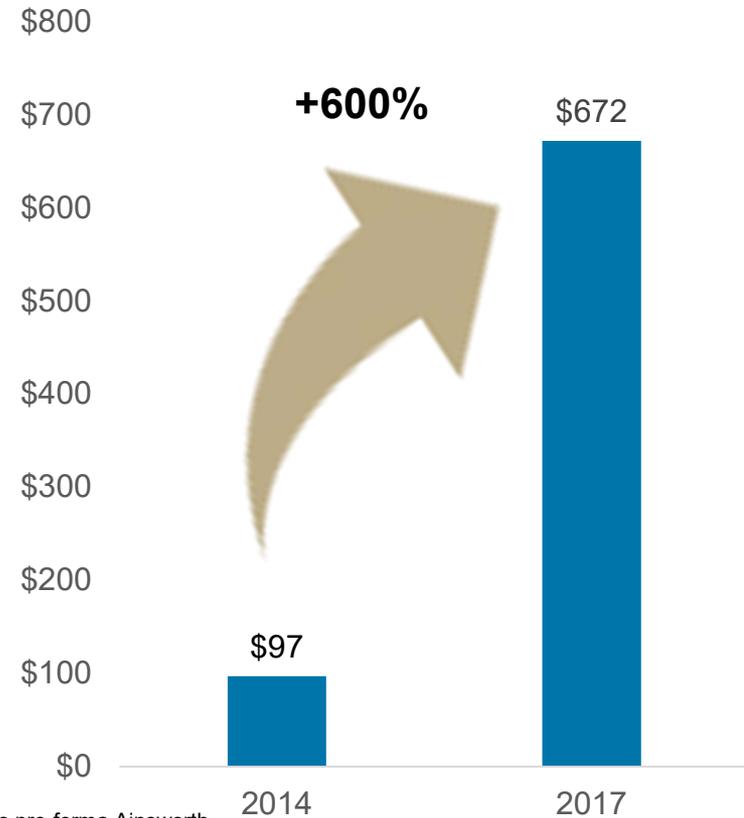
1. Housing starts to rebound
2. Commodities rebounded



Example is not representative of entire portfolio. Source: Company filings.

WHAT HAPPENED?

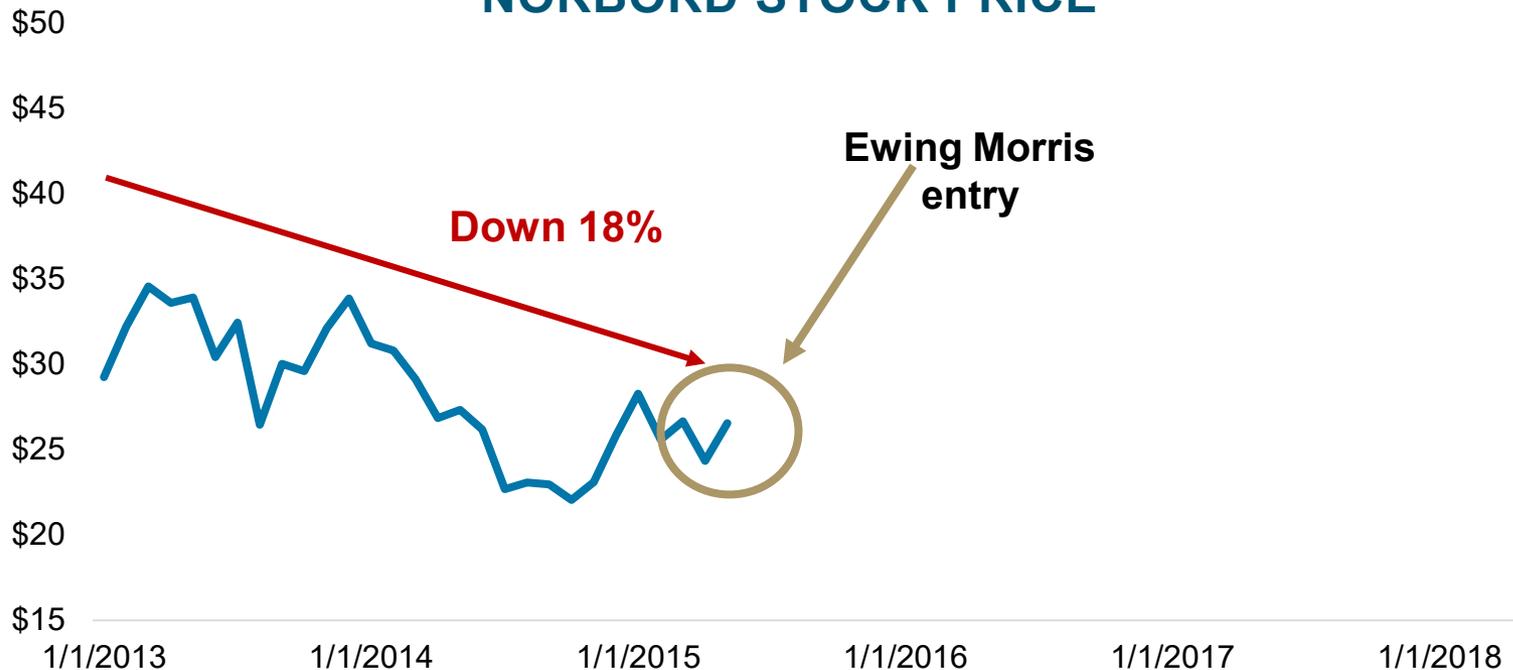
1. Housing starts to rebound
2. Commodities rebounded
3. Earnings soared



Example is not representative of entire portfolio. Source: Company filings; 2014 EBITDA is pro-forma Ainsworth

NORBORD'S STOCK PRICE ROSE SUBSTANTIALLY

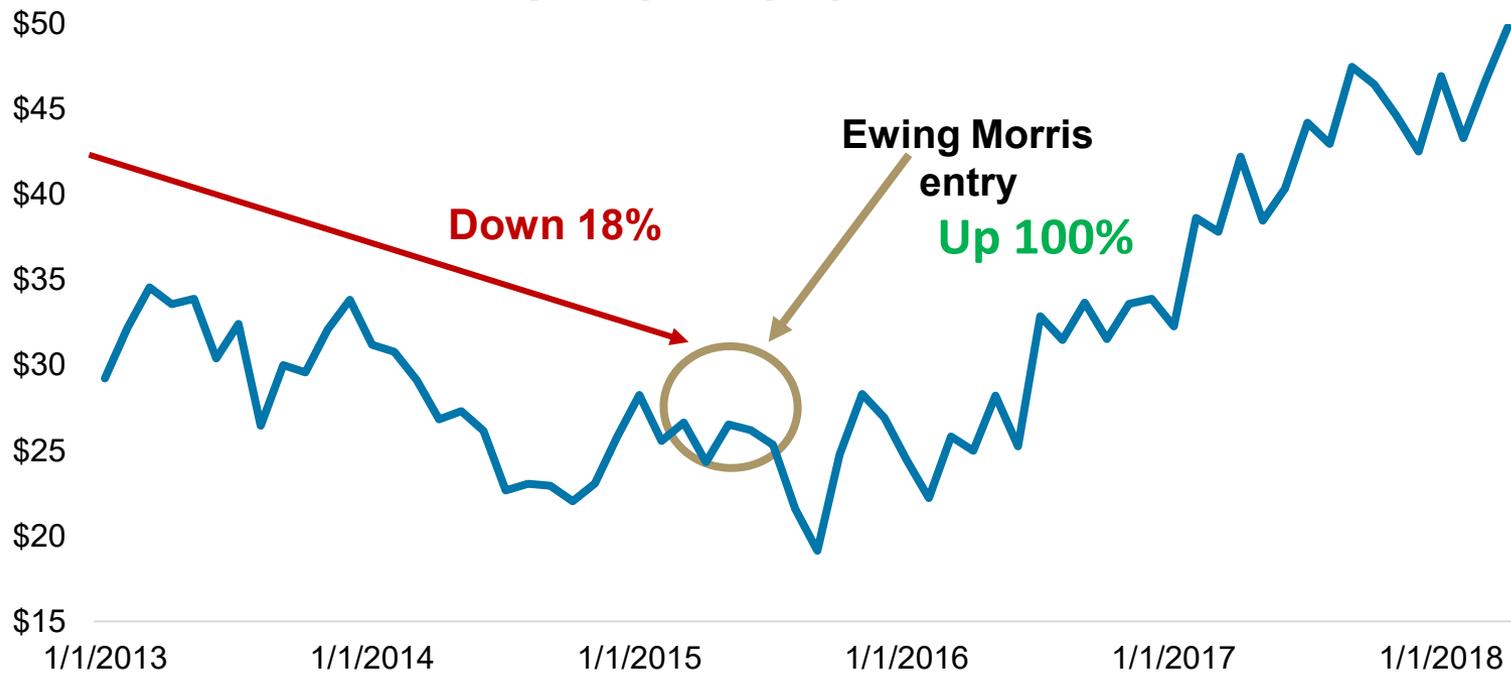
NORBORD STOCK PRICE



Example is not representative of entire portfolio. Source (OSB Share Price Data): Yahoo Finance.

NORBORD'S STOCK PRICE ROSE SUBSTANTIALLY

NORBORD STOCK PRICE



Example is not representative of entire portfolio. Source (OSB Share Price Data): Yahoo Finance.

PARKLAND FUEL (TSX:PKI)

**CANADA AND THE CARIBBEAN'S LARGEST INDEPENDENT
SUPPLIERS OF FUEL AND PETROLEUM PRODUCTS**



AN ATTRACTIVE BUSINESS...

Focus on undersupplied markets

Create cost advantage with scale

Generate attractive returns on capital

...WITH GREAT PEOPLE...

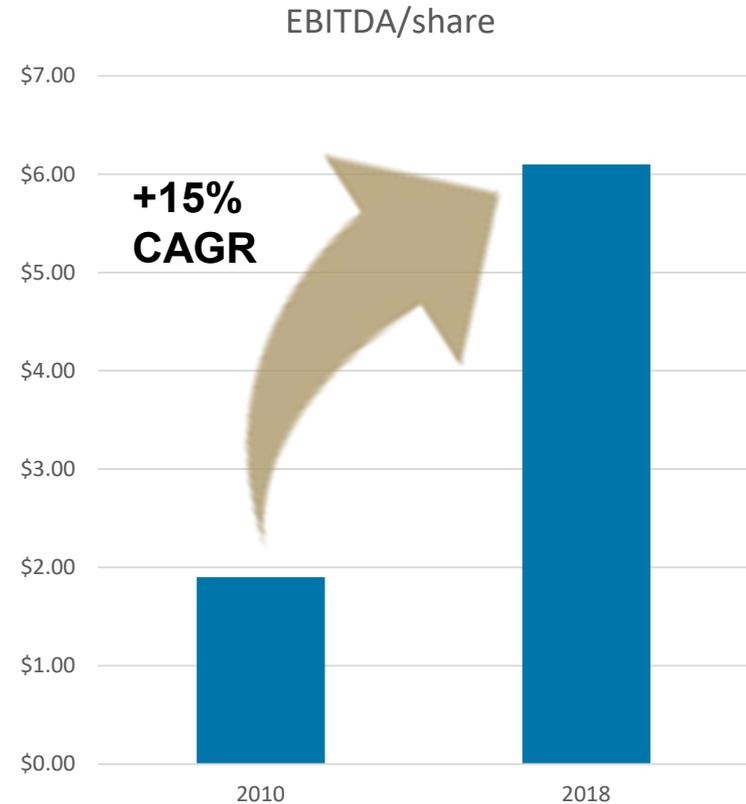


Bob Espey, President & CEO

...AND A GREAT TRACK RECORD

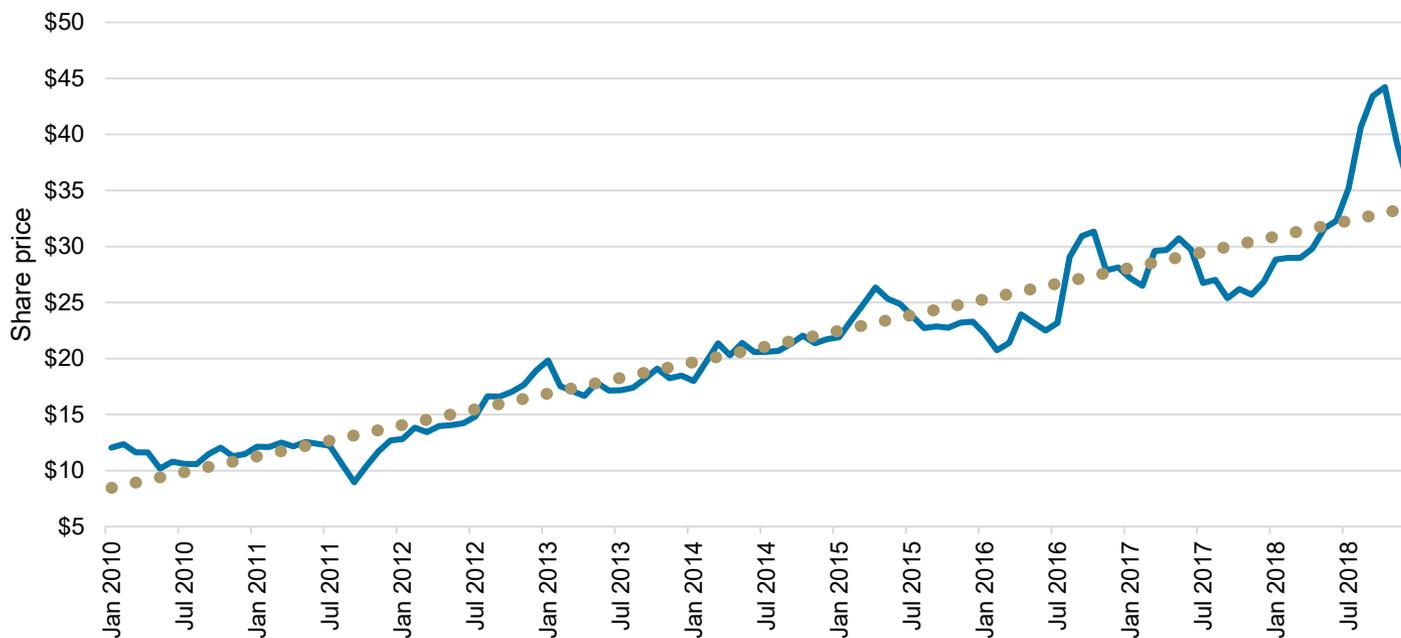
- ▶ EBITDA/share increased from \$1.90 in 2010 to \$6.10 in 2018

Source: Capital IQ.



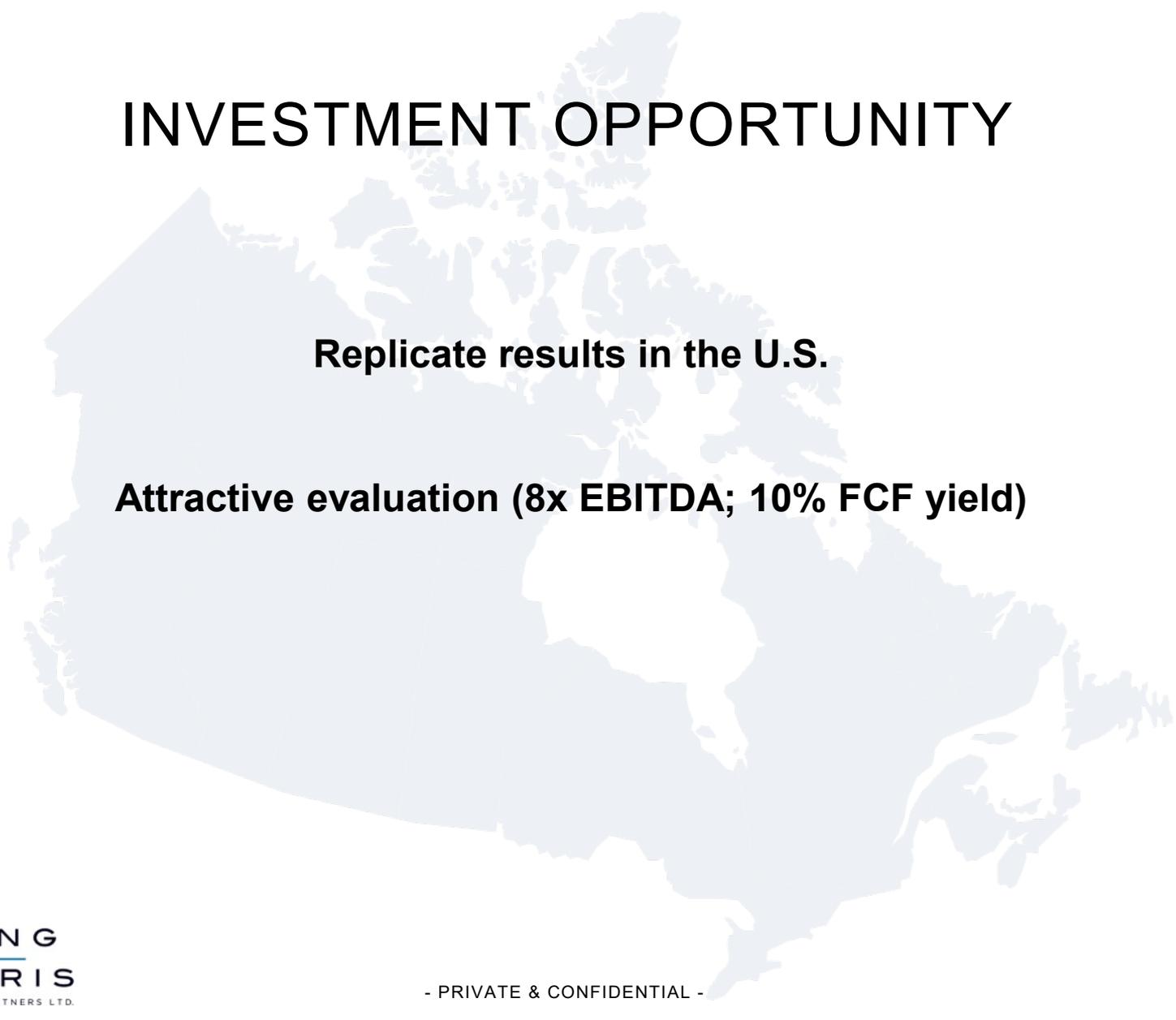
SHARE PRICE TRACKED EARNING POWER

PARKLAND FUEL SHARE PRICE



Source: Capital IQ.

INVESTMENT OPPORTUNITY



Replicate results in the U.S.

Attractive evaluation (8x EBITDA; 10% FCF yield)

KEY RISK

ELECTRIC VEHICLE ADOPTION

- ▶ Diversified product offering
- ▶ Adoption rate of EV is ~1% of new cars
- ▶ Real estate has alternate uses





QUESTIONS

DISCLAIMER

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