Three overlooked stocks with room to rise

A professional investor tells us where he'd put his money. This week: Joe Bauernfreund, portfolio manager, AVI Global Trust, highlights his favourites

Seeking out companies that are unloved or ignored by mainstream investors is the key to discovering pricing inefficiencies and outperforming markets. These stocks are not priced inefficiently because of inferior quality; they are typically beset by problems specific to the company that are unlikely to endure over the long term.

The broad theme playing on people's minds is uncertainty over the future growth of the world economy and hence the likely direction of future profits. This has resulted in heightened volatility and is another reason why solid companies may be available at attractive prices.

Profiting from private equity

Oakley Capital Investments (LSE: OCI) is a closed-end fund investing in and making co-investments alongside the private funds run by private-equity firm Oakley Capital. In August 2019 it was admitted to the Specialist Fund Segment (SFS) of the London Stock Exchange, an improvement over its previous Aim (junior market) listing, where corporate governance protections are weaker.

"Oakley can draw on a network of entrepreneurs to help it find opportunities"

OCI experienced growth in net asset value (NAV) of 25% in 2019. In conjunction with a narrowing of its discount from 38% to 23% as investors woke up to Oakley's improved corporate governance and increasingly strong record, this resulted in a 57% share price total return. Oakley boasts an attractive portfolio of fast-growing stocks and a unique approach of focusing on complex deals. It can draw on a network of entrepreneurs to find investment opportunities. Throw in a wide discount to NAV and it remains a compelling investment.

A bet on Brazil

Cosan Ltd (NYSE: CZZ) is a family-backed holding company. CZZ owns stakes in two Brazilian listed holding companies, Cosan SA and Cosan Logistica, and the perceived complexity has deterred investors. However, within this structure lie high-quality assets, exposed to rail logistics, fuel retail and gas distribution. Our investment is predicated on both the attractive nature of the assets and the potential simplification of the group structure.

In 2019 NAV grew by 106%. Coupled with a narrowing discount as management took initial steps to simplify the structure, this resulted in a share-price return of 160%. The discount to NAV currently stands at 32%, which, coupled with confidence in the underlying assets and management's proactive approach to value enhancement, creates the prospect of further attractive returns.

Value in Italian loans

We initiated our investment in Eurocastle (Amsterdam: ECT), a closed-end fund, in the first half of 2019. Eurocastle's assets consisted largely of a portfolio of Italian non-performing loans (NPLs) and a stake in Italian-listed NPL servicer doValue. Having accumulated an 18% stake in ECT at a 20% discount to NAV, we worked with the board to implement a restructuring that led to the sale of the NPL portfolio and the distribution of the cash proceeds along with the doValue shares. We continue to see scope for further upside from the doValue shares, which we now own directly, with earnings growth set to accelerate from its recently-announced acquisition of FPS, the NPL servicing platform owned by Greece's Eurobank.

If only you'd invested in...

Cohort (LSE: CHRT) is an Aim-listed parent company to subsidiaries that provide equipment and services in the defence and security sectors. Its most recent acquisition was ELAC, a German naval sonar business. With global defence budgets rising and procurement trending towards more high-tech solutions, Cohort is well placed to cash in. Orders rose by 90% to £207m in the six months to November 2019, while sales and profits climbed too. Management predicts a stronger second-half performance. The share price has gained 80% in the last year.

Be glad you didn't buy...

SolGold (LSE: SOLG) is a gold and copper explorer with interests in Australia, the Solomon Islands and Latin America. Protests by indigenous groups against the government in Ecuador, while not directly affecting the company's operations, have hit the share price; SolGold's Cascabel copper, gold and silver prospect in the country is a key project. Meanwhile, mining giant BHP invested $22m in the company in November, raising its stake to 14.7%. But that has not buoyed investors' confidence: the stock has slid by 50% in a year.