

## HOLDING UPDATE - GLOBAL DOMINION ACCESS (DOM)

Price	€4.50		
Market Cap	€730m	PE FY2	14x
EV	€664m	EV:Sales	0.54x
DY	0.5%	EBITDA Margin	9.2%

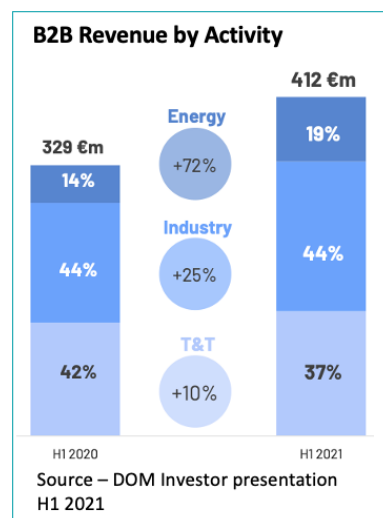


### Conclusion:

Having initially purchased our position in DOM at the IPO in 2016 for a price of €2.74 we have now followed the company for over 5 years and continue to find the investment case very attractive. The compound annual return (inc dividends) of almost 11% has been acceptable rather than dramatic but following our recent review we continue to find a compelling risk:reward case for the stock.

### Operations:

Global Dominion Access (DOM) is a diversified service company that offers consultancy, project management and commercial management services. In addition, in Spain they provide a consumer utilities offering providing households with access to a wide range of services from telecoms to insurance and alarms to plumbing. This latter B2C segment represented less than 7% of the group profit in 2020 but is growing quickly and is characterised by high renewal rates. Since the 2020 financial year was so impacted by Covid I will use the more recent H1 2021 numbers to give a more accurate breakdown of the business.



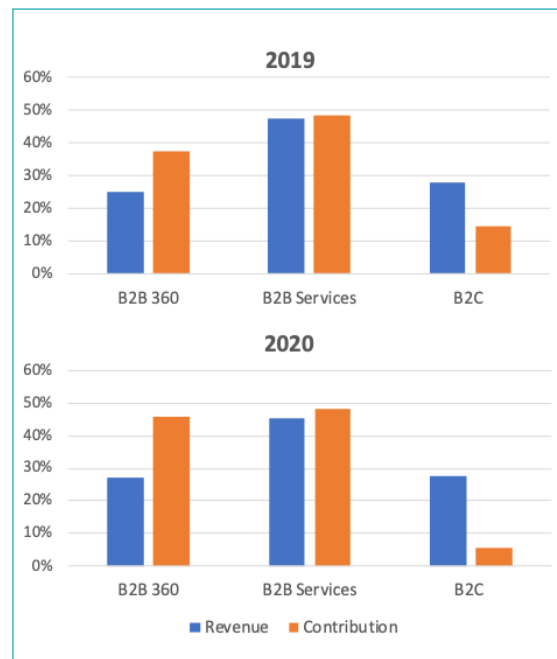
The core B2B business is divided into 2 segments; the higher margin design and implementation solutions provider, '360 Solutions', and the more stable, but lower margin BPO division, 'B2B Services'. Contract lengths vary significantly between the two segments with the Solutions business typically one-off projects as compared to the multi-year recurring BPO contracts. The company aims to offer a complete end-to-end solution for customers from project consulting, design, implementation through to the operation of facilities. The core focus is on industrial operations across Energy (particularly alternatives such as solar and biomass), Industry (chemicals, cement, glass etc), and Tech & Telecoms.

The group separates the operations of building and then maintaining projects in order to maintain visibility of returns in both elements. By its nature the 360 solutions side is highly project driven with visibility coming from the depth of the order pipeline, which appears to have held up well during the pandemic. The most recent release has the backlog at €605m which they believe is conservatively assigned and currently represents ~2

years of revenues for the division. This segment represented ~30% sales in H1 with a contribution margin of 17.6% (and 19% in Q2). By contrast the Services segment is characterised by high levels of recurring sales (c60%) as the management contracts typically last for 3-5 years and sometimes longer. This division represented 53% of sales in H1 with an 11.4% contribution margin. This area continues to see solid revenue growth posting a 14% increase over the 2019 H1 figure (which was not distorted by the pandemic). Both divisions have clearly performed well despite the on-going disruptions in many of the regional markets.

The B2C division, while currently small (15% of the profit contribution in H1 2021) has shown solid growth since launch in 2018. DOM acquired Phone House Spain from Dixons Carphone and spent the last 3 years expanding the range of services away from being a pure telecoms reseller to now marketing a wide range of services including gas and electricity supplies, telecoms, insurance, alarms and security, and general maintenance. They offer this both online and across a network of 400 retail outlets. The maintenance services are provided by FAMAEX, a subsidiary of the group which serves both the B2B and B2C businesses, which allows for a small amount of cost synergy between the two.

Many investors were sceptical regarding the Phone House acquisition, seeing it as a complicated and opaque change to the Group strategy. Certainly Covid had a more significant impact on this business as the retail stores were closed for much of the pandemic period, dramatically impacting the flow of new subscribers. In 2020 the revenue declined by 11% with the contribution margin falling by 68% (although distorted by one-offs). However, this has bounced back strongly in H1 2021 with the contribution on track to surpass the 2019 figure. The firm remains committed to this strategy and plans to increase the store network by up to 100 new franchise-based locations, as well as acquiring smaller competitors in line with the Alterna deal from 2019. The business aims to tie customers into a range of services making the process simple and competitively priced meaning that the revenues should provide high renewal rates going forward.



#### Attractions of the investment case:

- Overall focus on key trends of digitalisation and alternative energy.
- Net cash balance sheet of €66m at H1 2021. While this is certainly conservative it is also an important confidence builder for clients looking appoint partners in new construction projects.
- Significant proportion of recurring revenues - and growing as the B2C business expands. Organic revenue growth compounded at 11% from 2016 until the arrival of Covid.
- Highly diversified revenues by geography (35 countries) and customers (largest customer <5% sales)
- BPO segment advantaged by connection to the design and construction phase through the B2B 360 division.
- In 2016 the group co-founded the Bas Projects Corp to focus on development of alternative energy projects. Since then the new division has built a pipeline of ~1GW of projects across wind, solar, hydro and bio-mass plants across Europe, Latam and the Caribbean. While DOM currently own a 35% stake in this business they are looking sell a minority stake in this business to generate additional growth as the investment across the sector continues to ramp up aggressively. The division may be spun-out of the group which would create a valuation catalyst which is not reflected in the current valuation. This makes DOM an inexpensive way to invest in the growth of renewables over the next 5 years.
- The service based model means the business runs with limited capital intensity with capex running at just over 2% of sales.
- DOM was spun out of CIE Automotive in 2018 and the founding Riberas family remain the largest shareholder in the group. The portfolio of companies controlled by the Riberas family (including

Gestamp Automoción) have an excellent reputation and this stability of ownership allows the management team to focus on the longer term development of the company, which is a characteristic we actively seek in our investments.

- Strong record of achieving financial targets (net prior growth plan 1 year early) - achieved RoCE of mid 20s percent since listing (ex Covid). Current strategic plan calls for doubling of net profit from 2019 to 2023 (delayed from 2022 due to Covid). Note that this target is not expected by consensus or our internal forecasts and so if achieved would lead to a meaningful upgrade for the stock.
- The valuation remains attractive given the growth and profitability of the business (see below).

### Valuation:

When it comes to valuing companies we agree with the maxim it is better to be roughly right than exactly wrong, so we tend to review valuations from more than one perspective. The best sense-check of a company's intrinsic value is generally a DCF model. As we know this technique can produce a wide range of outcomes with even relatively small adjustments to the inputs, but ultimately a company is 'worth' the present value of its future cash creation and so it makes sense to be comfortable that the current price incorporates reasonable assumptions. We often call this a reverse DCF as it enables us to assess what is currently priced into a stock as well as how this compares to what we believe is realistic.

Valuation multiples are a short-hand version of this and are a simple way of assessing a company relative to other listed peers. The water here is quickly muddied by different tax rates, profit margins and other variables so in order to avoid these issues I find that a useful starting point is EV/Sales. The benefit of this multiple is that the EV normalises for debt and revenues tend to be much less volatile than earnings, particularly for cyclically exposed stocks like DOM.

In this case we know that the revenues in 2020 were depressed by the pandemic and the management have been clear in outlining their expectations for the current year and looking ahead. Assuming 2021 plays out as expected then the shares currently trade on an EV:sales of 0.65x. This falls to 0.54x for 2022. For a company that is likely to grow EBITDA margins back to ~11% in 2022 this looks very under-valued. Contrast this to another portfolio holding, Akka Technologies, which offers somewhat similar engineering consultancy with an EBITDA margin of ~10% and a similar organic growth rate. Akka was recently acquired for an EV:sales of 1.1x - or a premium of 70% to DOM. (Actually the equity premium was larger as the static debt component of EV within Akka hides some of the increase in market cap). In our view the acquisition under-values the Akka business in the mid-term but either way the comparison stands.

As DOM returns to an 11% EBITDA margin and recovers the organic top-line growth the shares should re-rate back towards 1x EV:sales providing a theoretical upside of >60% for the shares. We handicap this by around 15 percentage points to represent the exposure of the business to Latam and the associated political risks. Even allowing for this we are still expecting ~45% upside from the current price. Our DCF (9% WACC, 2% terminal growth after 10 years) also suggests a target of €6.30 or ~40% upside – excluding the potential uplift from the spin-off of the renewables division (Bas Projects).

While this appears to be a considerable potential return we should note that the company does not, in our view, sit amongst the higher quality business in the Columbus framework. Our portfolio approach is to have the majority of holdings, typically 70-80% in companies that we perceive to have very high-quality attributes - essentially strong barriers to entry, clear and consistent strategy, and a proven management team. These factors tend to lead to higher than average margins, more consistent growth and strong returns on capital. However, the remainder of the portfolio is invested in more 'opportunistic' holdings where we see significant under-valuation and the catalysts to reveal this to the broader market. DOM fits into this second category and so needs to offer material upside to justify a continuing position on the fund.

### Risks:

The most obvious risk comes from the geographical exposure of the group with ~22% of sales from Latam (principally Mexico, Chile and Peru). Potential political risk is high in the region which can affect FX rates and payment terms.

AUGUST 2021

The growing focus on the B2B segment is a largely unproven model and may not achieve the growth, profit or revenue renewal targets the group expects. Worth noting that the analyst community appears to have conservative assumptions here so the risk:reward appears fairly balanced.