Jacob Mitchell of equities manager Antipodes Partners says some foreign banks are good buys. PHOTO: BRENDON THORNE

Uncovering value in bank stocks far from home

Equities New listing targets self-managed super fund investors.

Anthony Macdonald

It's a little late to buy bank stocks and join the yield trade. But not if you look offshore.

That's the view of Jacob Mitchell, founder of Sydney-based global equities manager Antipodes Partners, which is seeking to become Australia's newest $1 billion asset manager.

And his top pick? ING Groep, a household name in Australia as the country's sixth-largest mortgage writer, but also a powerhouse in northern Europe. ING shares are trading below their net tangible book value, despite offering a 6.5 per cent dividend yield and the bank growing its loan book at about 5 per cent annually.

"Outside the Netherlands and Belgium it is an internet bank. It is a disrupter, effectively a technology company," Mitchell says.

"You also have got to have some sort of home market or fortress, and they have that.

"With banks, most people make the mistake of thinking capital adequacy is everything. It does not tell you anything about the quality of the underlying data. It does not tell you anything about whether the stock is overvalued."

Mitchell says it is easy to see why a lot of investors view banks as a value trap. And he agrees that offshore banks will find it tough to record growth and deal with regulatory headwinds, just as Australia's banks are finding.

But he says there are some pretty compelling stories out there.

And ING is not the only big offshore bank that Antipodes' nine-strong team of senior analysts have been buying. They also like Korea's KB Financial Group, which has a $US13.06 billion ($17 billion) market capitalisation, and India's ICICI Bank, which is worth about $US20 billion.

Antipodes' biggest holdings include US software giant Cisco Systems, China's Baidu, devices manufacturer Samsung Electronics, China Resources Beer, which has 23 per cent of the Chinese beer market, and the banks including ING, ICICI, KB and US-listed Capital One Financial.

It's a mixed bag, which Mitchell says gives Antipodes a margin of safety and multiple ways of winning.

"Our portfolio will end up being quite eclectic. When other people look at it they often can't work it out," he says.

"And I think that ends up giving you quite a bit of protection. When markets become difficult what will typically happen is crowded trades will underperform and that's where an eclectic construction really helps."

In terms of his short positions, Mitchell is cautious around some infrastructure and infrastructure-like stocks whose share prices have been bid up aggressively as investors replace long-duration bonds with yielding stocks.

> **When you are a global equities manager the world is your oyster – that's positive and negative.**
> Jacob Mitchell, founder Antipodes Partners

He says that, while there are plenty of high-quality names in listed infrastructure, it will pay to be more cautious on stocks and subsectors that are susceptible to any reset in interest rates or with short revenue-generating contracts.

And his focus; telecommunications tower owners.

"We think there are certain players in the [telecommunication tower] market that … have huge amounts of tenant concentration," Mitchell says.

"In most markets there are three dominant telcos. That is never a great thing for a landlord. And then you have technology risk – trends towards smaller cells that can go on the side of buildings and do not need towers. And you also have to question the benefits of scale in the business."

These themes all underpin Antipodes' latest pitch – a $330 million listed investment company called Antipodes Global Fund.

Should it be successful, it would take the firm's funds under management to more than $1 billion, only 18 months after opening its doors to investors. [Antipodes already has a handful of institutional mandates and support of financial advisers through its association with fund-seeder Pinnacle Investment Management.]

Now it is targeting the $600 billion self-managed superannuation market, where investors are renowned for having the bulk of their portfolios invested in Australian stocks, Australian property and exposed to the Australian dollar.

Should Antipodes successfully raise the new listed fund, which has a $100 million minimum acceptance, it would put the firm on path to replicate the strong success of Australia's two biggest global equities managers, Kerr Neilson's Platinum Asset Management and Hamish Douglass' Magellan Financial Management.

Mitchell, who worked at Neilson's Platinum for 14 years as well as Tyndall and UBS, reckons his firm needs at least $1 billion under management to be relevant on a global stage.

"When you are a global equities manager the world is your oyster – that's positive and negative," he says.

"We have competition everywhere. If you are an offshore allocator, even with pedigree, sub-$1 billion you are just one of many, many potentials." The firm had $750 million under management at the end of July.

The fundraising comes after a successful first full financial year for Antipodes. The firm's global fund returned 7.4 per cent after fees in the year to June 30, while the benchmark MSCI AC World Net Index dropped 0.6 per cent.

Interestingly, the fund's long and short positions contributed about the same amount to its outperformance in the 2016 financial year.

Antipodes' share offer opens on Monday. If successful, the listed fund would start trading on October 14.