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How this French boutique seeks to rethink the growth/value divide

Launched over the summer, ROCE Capital is riding an opportunistic wave but remains keen to capitalise on discounted, mid-cap growth.

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Posted 17 DECEMBER, 2020 AT 08:00

The idea that 2021 will be a binary choice between growth and value is an oversimplification, and the ROCE Capital team are trying to strike a balance by focusing on profitability.

The boutique, which was launched this summer by former Citywire AAA-rated Timothée Malphettes (centre), Michael Niedzielski (left) and Matthieu Bordeaux-Groult (right), aims to uncover overlooked opportunities in European equities.

Speaking to *Citywire Selector*, Niedzielski said the firm's first fund, the ROCE fund, has sought to operate with a high-conviction approach but without overpaying for guaranteed growth.

‘If you can get growth then, yes, of course, we will want to get growth,’ Niedzielski said via video call. ‘But we don’t want growth at any price. We are also conscious of valuation but not in a deep-discount context, we want high barriers to entry with dominant market shares and sound balance sheets.’

These types of stocks account for two-thirds of the initial portfolio, with Niedzielski and co-manager Malphettes focusing the remainder on more tactical opportunities. Niedzielski highlighted several stocks that have flourished as a result of Covid-19 and look set to rebound strongly into 2021 and beyond.

‘We have a small- and mid-cap bias, which has drawn out some excellent names, which are perhaps less covered by brokers. We have a position in Italian group F.I.L.A, for example, which has fewer than €1bn in market cap but is the dominant name in crayons and art craft supplies.

‘They have two businesses, one that sells to schools and one that sells fine art supplies to professional and hobbyist artists. The school-side of the business has been hit hard by school closures but that won’t be the case forever. We believe it has balance sheet strength and will recover well.’

Niedzielski highlighted how the stock dropped from €16 a share to €6 between March and November but had climbed back to more than €8 in December as positive vaccine news came through. ‘We think it could go to €15 over the next 12-to-18 months, so it is about being in the right place.’

Another favourite of the portfolio in its early incarnation is French supermarket owner Mercialys, which Niedzielski said has been insulated from the worst of Covid-19 as it is not as consumer discretionary-led as the likes of Westfield.

‘One of the benefits is they have around 30% exposure to the food industry, which is much higher than regular shopping malls,’ he said. However, he accepted the stock had fallen strongly as with many other shopping-related stocks in the pandemic period.

Other stocks in the three-month-old portfolio include beverage giant Diageo and exposure to luxury goods house LVMH through its holding company. The fund currently has 55 names, which is slightly more than the standard intended allocation of 30-45 names.

Looking into 2021, Niedzielski said comparisons to the post-2008 crash may be overstated, as the belief that a relief rally in the range of 50-60%, as seen in 2009, is unrealistic. ‘What we saw then was the addressing of a toxic aspect of one industry. This has been a global phenomenon with many moving parts.

‘A lot of funds did very well in 2009 due to positioning in one or two areas and I don’t think that is going to be the case for the year ahead,’ he said. ‘I think we are going to see a more muted recovery and one that will benefit those with a close focus on fundamentals.’

The firm has gained €30m in assets since inception, with the aim of accruing €50m by the end of the first half of 2021. This is with a long-term ambition of hitting €100m over the next 12 to 18 months.