

# Hedge fund IBV Capital digs deep to unlock long-term value in a competitive market

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For Talbot Babineau, chief executive of hedge fund IBV Capital Inc., hunting down long-term investing opportunities is far from easy these days.

For starters, finding value is difficult thanks to a US\$1-trillion global competition for assets that is ratcheting up prices around the world.

Add to that growing fears about trade, and how a more protectionist United States under U.S. President Donald Trump may lead to dislocations in numerous countries.

But Mr. Babineau has a solution: invest in companies that are solving problems in their operations, finances or contracts, and have yet to see progress on these fronts recognized by the market.

Of course, it's a challenge that requires serious study – and no shortage of shoe leather.

“Those are difficult to find. They don't screen well. The price-to-earnings ratios and all of the ratios don't show up well in those situations,” Mr. Babineau said. “You just have to sift through a lot of ideas to find situations, like turnaround stories, spin-offs, very aggressive share repurchases, and one

of the things we've found of late is hidden contractual obligations that essentially unlock value once those obligations come to fruition.”

Toronto-based IBV Capital is a small investment-management firm that concentrates on value investing in numerous markets and varied industries. Its roots are as a family office, and it made the transition into private equity in 2014.

Mr. Babineau's 2018 letter to its partners, published this month, includes a detailed discussion of global trade risks, with North American free-trade talks stuck on auto-content rules. Meanwhile, a tariff war between the United States and China is riling investors. On the latter, he believes that the fracas could actually result in the United States leading China to the negotiating table, eventually yielding more openness by China on trade and foreign investment.

Now, though, trade friction is causing no small measure of volatility in markets, which Mr. Babineau said only reinforces his strategy of seeking companies that are quietly on the mend. “We will gravitate naturally toward situations that have embedded catalysts,” he said.

One recent investment within that category is Advance Auto Parts Inc., the Roanoke, Va.-based distributor that attracted the interest of activist investor Starboard Value LP in 2015. Rather than get credit in the market for subsequent cost cutting, the stock slumped due fears about competition from the likes of Amazon.com and the overall weakness in retail stocks.

IBV got interested in Advance during a study of the retail sector in 2017. It had suffered from operational inefficiencies that were the result of an expansion drive under a previous management group, but overall prospects for after-market parts looked to be good and less influenced by overall gloom in

bricks-and-mortar retail than it first appeared. In 2016, former Frito-Lay CEO Tom Greco was named as its new chief, and efforts to improve distribution and bolster efficiencies are under way.

“If you just looked at it from the surface without digging into some of the details, it wouldn’t give the appearance of an opportunity,” Mr. Babineau said. “But we went down, we visited with management, we toured the distribution facility, we toured the store. I spent an entire day there with management, asked a lot of questions and got a considerable amount of comfort.”

Since a recent nadir in November, the stock is up 65 per cent.

One investment off the beaten path is Ascendant Group, a Bermuda Stock Exchange-listed firm that owns Bermuda Electric Light Co. (BELCO), the country’s only power utility. It is led by CEO Sean Durfy, a former chief executive at WestJet Airlines Ltd.

In March, regulators approved the utility’s application to replace an old generating station with renewable energy sources. There is also a favourable proposed rate structure, which will cement BELCO’s profit model for several years.

It is another case of having numerous meetings with the company’s managers and directors about the overall strategy after identifying the opportunity. “They’re doing a lot of the right things. It took a lot of time to find this company and access it and build a position it,” Mr. Babineau said.

Ascendant shares are up 26 per cent since the start of 2018.