

Legendary Investors

Howard Marks' Picks

Oaktree Capital Management

Filtered by risk

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Oaktree's investment strategy and key holdings

AUM \$7 bn

- Oaktree Capital specializes in less efficient markets and alternative investments. Its asset classes include credit, PE, real assets and listed equities
- Howard Marks is admired in the investment community for his "memos", which detail his investment strategies and insight into the economy and are posted publicly on the Oaktree website.
- Marks wrote a memo to clients in January 2000, just two months before the bubble began to burst, warning that internet-linked equities were overvalued, and that speculative mania had taken hold of investors.
- Again, in July 2007, Marks published a memo where he warned that investors were feeling far too optimistic and ignoring risks.
- Marks believes that it is hard to gain an investment advantage through research since so many smart people are doing it already. The ways to get an advantage are through better inferring the consequences implied by current company data, managing the psychology of investing, and assessing the present stage of the business / market cycle.

Company Name	% of Portfolio	Value	Average Buy Price
Torm Plc	17.61%	\$ 1.30B	\$6.77 (+275.9%)
Chesapeake Energy Corp	8.33%	\$ 615.05M	\$42.55 (+108.0%)
Star Bulk Carriers Corp.	6.25%	\$ 461.39M	\$18.09 (-2.5%)
Vistra Corp	6.05%	\$ 446.25M	\$20.16 (+68.9%)
Sitio Royalties Corp	4.60%	\$ 339.81M	\$22.65 (+16.4%)
Garrett Motion Inc	4.52%	\$ 333.71M	\$7.54 (+0.9%)
Runway Growth Finance C	3.52%	\$ 260.02M	\$12.84 (+3.0%)
Sunopta Inc	1.88%	\$ 138.66M	\$10.68 (-64.2%)
Nmi Hldgs Inc	1.71%	\$ 126.52M	\$15.35 (+85.3%)
Ally Finl Inc	1.68%	\$ 124.25M	\$23.48 (+19.2%)

Source:
SEC 13F
filing

Garrett Motion

Target
XXXX

Portfolio weight: 4.5%

Market price: \$7.6

Investment : \$ 334 mn

Oaktree's average cost: \$7.5

Profile: Garrett Motion designs, manufactures turbocharger and electric-boosting technologies for 40+ automobile OEM clients globally. It provides innovative solutions for emission reduction in internal combustion/hybrid vehicles as well as zero emission EV and hydrogen fuel cell vehicles. The company owns five R&D centers and 13 manufacturing facilities worldwide. Oaktree Capital and Centerbridge Partners each own a 15% stake in this company.

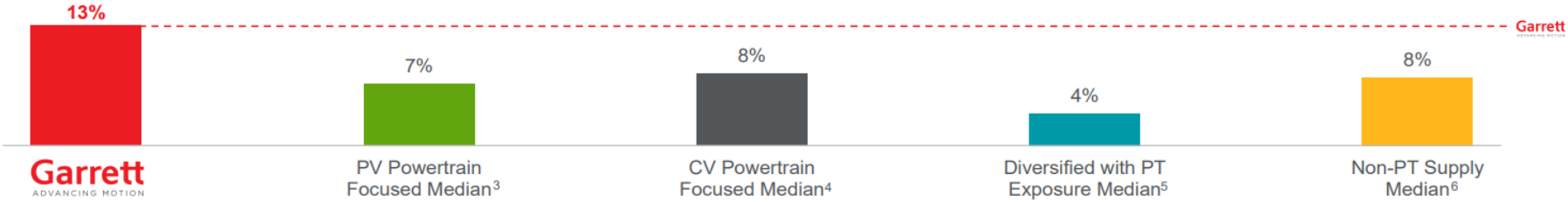
Fundamentals		Outlook
Mcap	\$ 2 bn	Garrett maintains a higher EBIT margin and FCF conversion over its peers owing to its low fixed cost structure and an asset light model. The company enjoys a high degree of customer retention attributable to long-term co-development of engine turbo components, which is one of the most expensive engine parts. Revenue visibility is high as >80% of OEM revenue till 2026 has already been awarded to the company. Garrett has improved its 2023 outlook by raising sales, EBITDA and Net income around 10% from its earlier guidance post its Q2 earnings disclosure. FCF is likely to be in the range \$340-\$440 mn mainly driven by higher EBITDA and working capital reduction. The company enjoys healthy liquidity and has no debt maturities until 2028. The company is focusing on zero emission vehicle technologies which it estimates to generate a \$1 bn annual revenue by 2030. This is a higher margin segment compared to the current turbo segment. To reach this milestone, the company is currently spending around \$100 mn annually on electrification capex and R&D.
P/E (2024E)	6.2x	
Year end	December	
EPS 2024E	\$ 1.22	
EPS 2023E	\$ 0.99	
Next earnings day	Oct 29, 2023	
Div yield (Excl. withholding tax)	0%	
ROE		
Institutional holding	74%	



Differentiated Profitability & Cash Flow Profile Relative to Peers

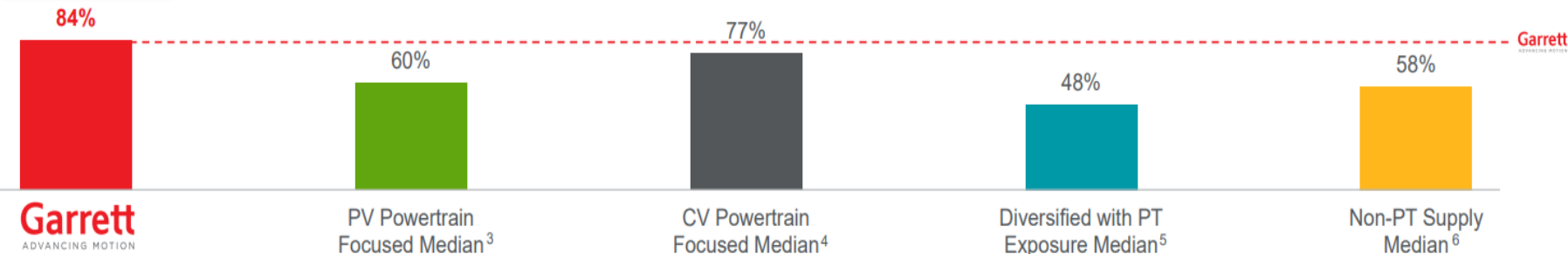
Adjusted EBIT Margin¹
2022A

2021A – 2022A
Average²: 14%



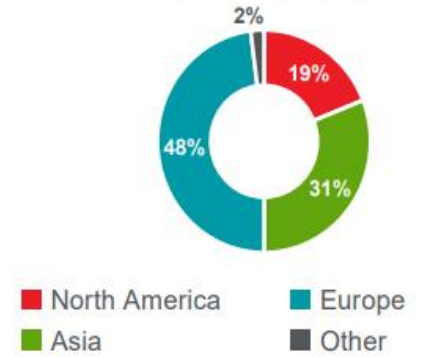
(Adjusted EBITDA¹ – Capex) / Adjusted EBITDA¹
2022A

2021A – 2022A
Average²: 86%

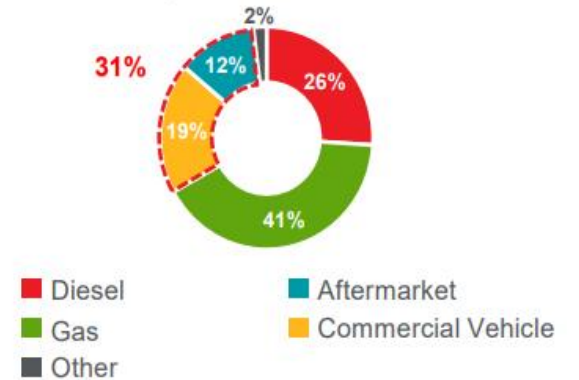


2022 Revenue Breakdown

By Geography



By Product Line



Ally Financial

Target
XXXX

Portfolio weight: 1.7%

Market price: \$ 28

Investment :\$ 124 mn

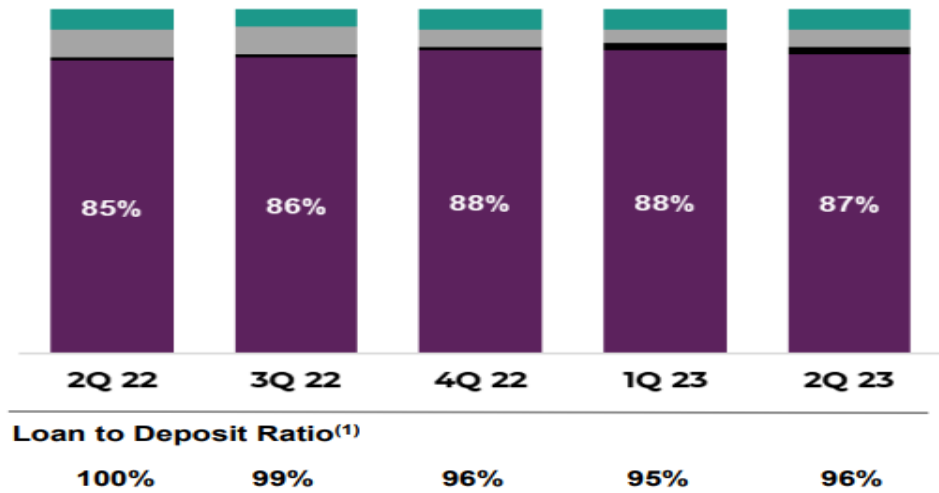
Oaktree's average cost:\$ 23.5

Profile: Ally is a market leader in auto finance in the US. It is also an all-digital bank offering a full range of banking, investment products and solutions including insurance. Ally has benefited from the growth of online banking as it was able to materially improve its funding structure, with deposits currently making up 88% of total funding from 54% in 2016.

Fundamentals		Outlook
Mcap	\$ 8 bn	Net financing revenue declined around 11% YoY in Q2 2023 due to a sharp rise in funding costs from rate hikes partly offset by strength in auto pricing and asset growth. Net income dropped nearly 32% YoY mainly due to lower net financing revenue and higher provision for credit losses.
P/E (2024E)	6.5x	
Year end	December	
EPS 2024E	\$ 4.34	Rising cost of deposits may compress NIM in 2023 to around 3.4% from 3.85% in 2022. Both liquidity (3.8x uninsured deposit balance) and capital (CET1 ratio of 9.3%) remain strong despite a challenging rate environment and flight of deposits from US regional banks.
EPS 2023E	\$ 3.24	
Next earnings day	Oct 17, 2023	Fortunately, 92% of Ally's deposits are FDIC insured. The bank managed to add around \$0.5 bn of retail deposits in Q2 2023, which is notable given the recent exodus of bank deposits from regional to large global banks and US money market funds.
Div yield (Excl. withholding tax)	3%	
ROE	10%	Ally is positioned for a 'higher for longer' rate scenario through interest rate hedging. Risks include a downward trend in used car prices and rising delinquencies in consumer lending
Institutional holding	91%	

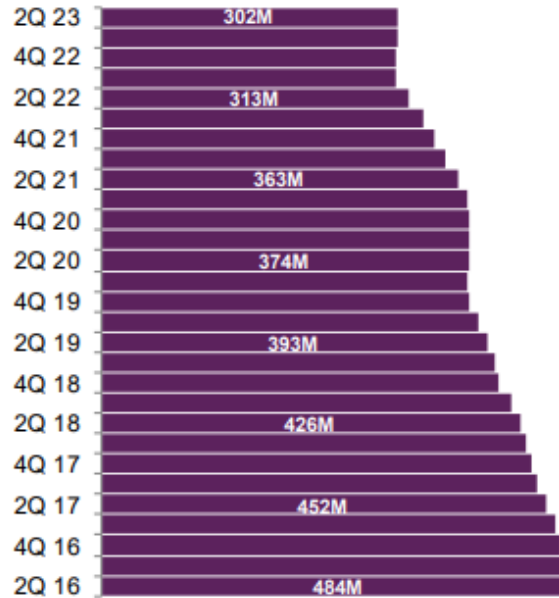
Funding Composition

Unsecured Debt
FHLB / Other
Secured Debt
Total Deposits

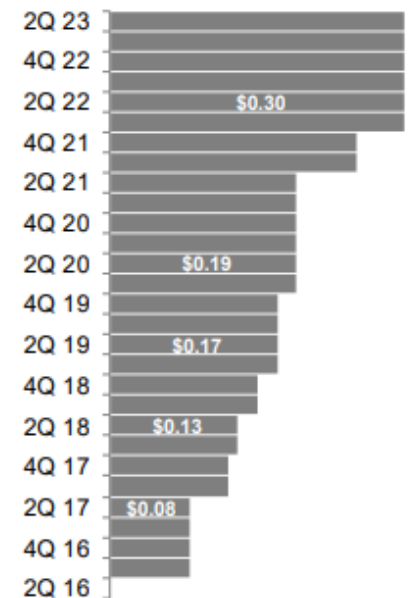


Capital Deployment Actions

Common Shares Outstanding



Dividend per Share



Stock buyback and cash dividend payout trend

Kilroy Realty

Target
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Portfolio weight: 0.75%

Market price: \$ 37

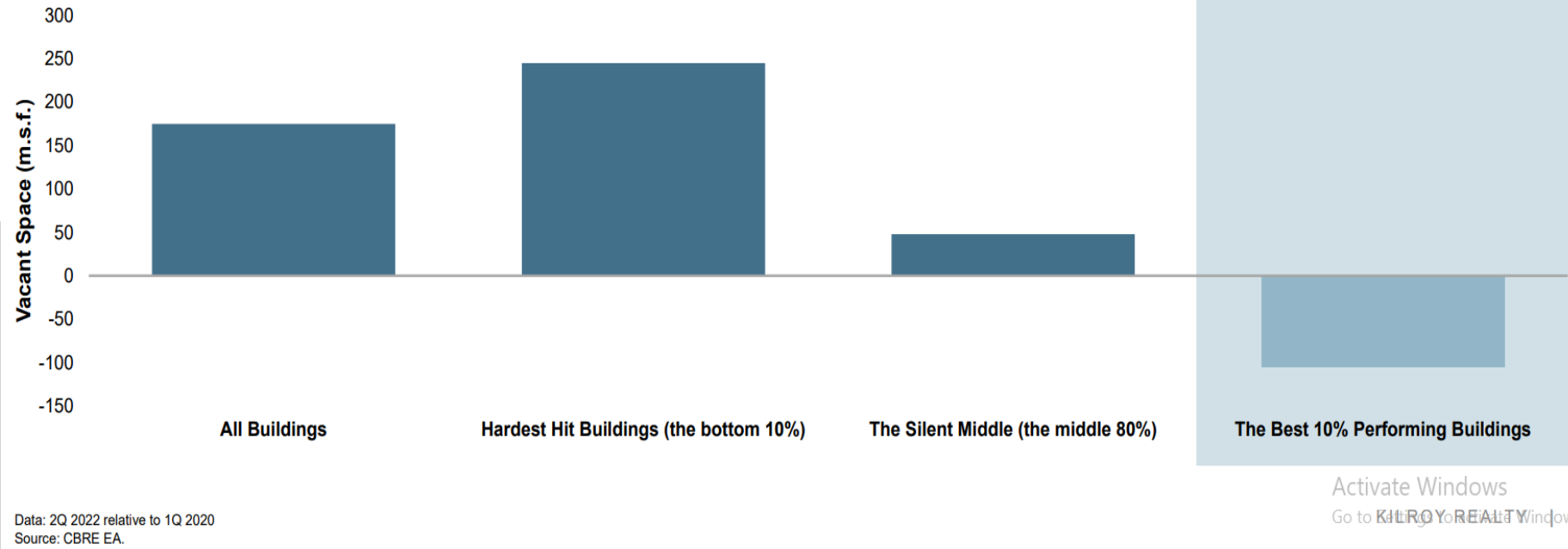
Investment : \$ 56 mn

Oaktree's average cost: \$ 61

Profile: Kilroy Realty Corp is a major U.S. landlord and developer of Class A office properties on the US West Coast and Austin, Texas markets. Around 68% of its portfolio is leased to multi-tenant offices, 22% to life science companies which comprises high quality, well capitalized tenants.

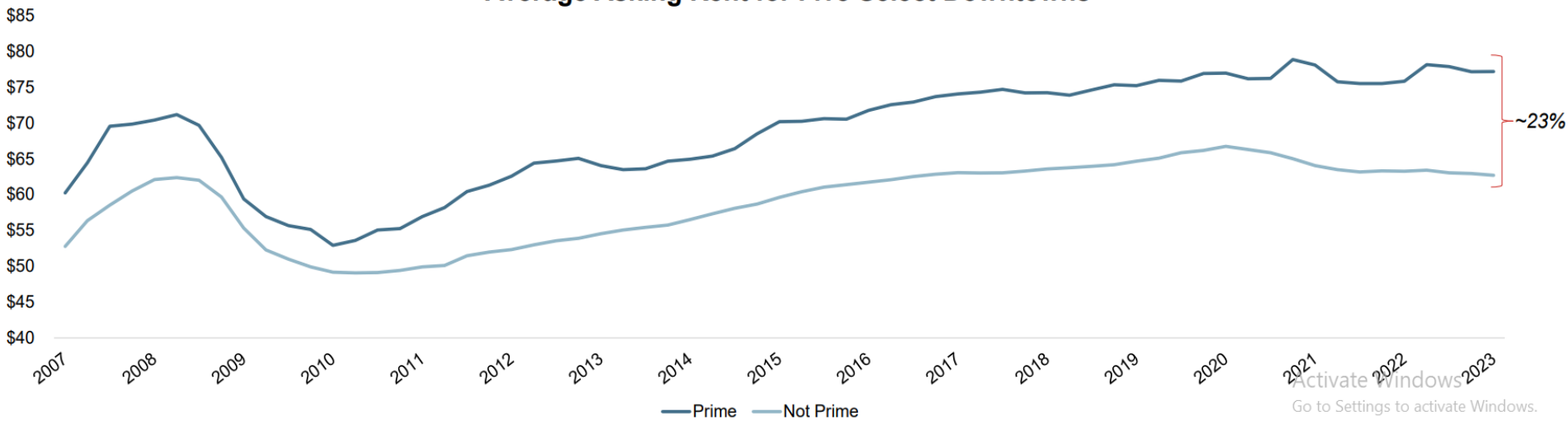
Fundamentals		Outlook
Mcap	\$ 4 bn	<p>Kilroy reported a revenue growth of around 5% YoY in Q2 2023 driven by a 2.5% YoY increase in cash rent (15% YoY increase in GAAP rent) and the rest due to increase in leased area. Occupancy in its stabilized portfolio was 86.6% at the end of Q2 2023.</p> <p>FFO decreased marginally to \$1.16 per share from \$1.17 per share in Q2 2022 on a recurring basis. New portfolio additions include a 71,000 sft office building in San Diego leased to a global tech company.</p> <p>Around 92% of Kilroy's portfolio is currently leased with a WALT (Weighted average remaining lease term) of around 6 years. It has one of the youngest and most modern office REIT portfolio (average age of 11 years against an average age of 34 years for US office REITS)</p> <p>Its balance sheet is modestly leveraged (5.7x net debt/EBITDA) and enjoys liquidity of \$1.6 bn. The company has guided FFO/share of \$4.43-4.53 in 2023 assuming a NOI growth of 1.5%-2.5%.</p>
P/E (2024E)	25.3x	
Year end	December	
EPS 2024E	\$ 1.46	
EPS 2023E	\$ 1.65	
Next earnings day	Oct 23, 2023	
Div yield (Excl. withholding tax)	4%	
ROE	4%	
Institutional holding		

Increase in Total U.S. Vacancies



Quality office space is outperforming in office occupancy which if it continues should benefit Kilroy.

Average Asking Rent for Five Select Downtowns



The spread between prime and non-prime rents is ~23%, the widest it has been in over 15 years as of 1Q23

Source: CBRE EA. Downtowns include: Manhattan, Washington, D.C., San Francisco, Boston, and Seattle.

SunOpta

Target
XXXX

Portfolio weight: 1.9%

Market price: \$ 3.8

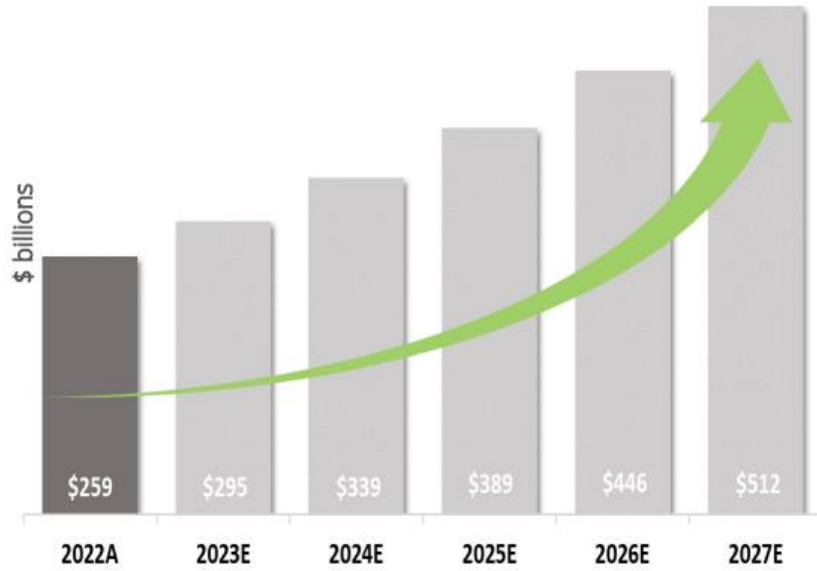
Investment :\$ 139 mn

Oaktree's average cost: \$ 10.7

Profile: SunOpta is a F&B company focused on plant and fruit-based products as well as organic ingredients. It specializes in organic, natural and non-GMO food products fully integrated from seed through packaged products. Plant based F&B products account for ~59% of its sales and the rest is attributable to fruit-based F&B. The company is a private label manufacturer for leading US retailers such as Costco, Whole Foods, a co-manufacturer and has its own brands such as Sown, Dream, West Life and Sunrise growers.

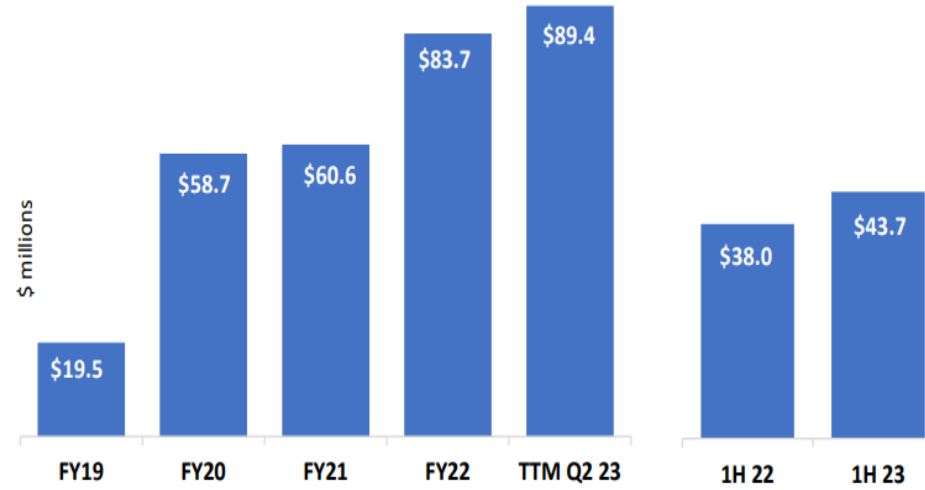
Fundamentals		Outlook
Mcap	\$ 442 mn	According to industry sources, 70% of U.S. population is consuming plant-based foods, up from 66% one year ago. Plant-based milk remains the largest segment in the plant-based food industry and enjoys a share of 15% in overall milk consumption.
P/E (2024E)	35x	
Year end	December	
EPS 2024E	\$ 0.11	Management has indicated that demand for its oat milk remains strong (59% YoY vol growth in Q2) as well as in fruit snacks, which are its key segments of growth. The company has recently launched a new ready-to-drink protein shake as well as added capacity.
EPS 2023E	\$ 0.01	
Next earnings day	Nov 07, 2023	The company suffered a setback in Q2 due to a voluntary recall of specific frozen food products due to suspected contamination, which cost \$2.5 mn in that quarter and expected to incur additional costs in H2 2023. This one-off event has caused the stock to tank in the market in August.
Div yield (Excl. withholding tax)	0%	
ROE	Neg	
Institutional holding	92%	
		The company's growth strategy focuses on adding capacity in plant-based food products, healthier snacks and nutritional beverages.

The **Global Organic Food Market** is expected to have a **CAGR of 15%** over the **next 5 years** ⁽¹⁾



Adjusted EBITDA Trend ⁽¹⁾

Continuing operations



Fruit smoothie bowl



Source: Organic Food Global Market Report 2023