



### YEAR TO DATE

As of August 31, 2018

BROXTON **+3.36%**

### MARKETS

DOW JONES **+5.04%**

S&P 500 **+8.78%**

NASDAQ 100 **+19.83%**

HIGH YIELD **-0.01%**

REIT INDEX **-1.29%**

### BOND YIELDS

10 YR TREAS **2.85%**

YTD CHANGE **+44%**

30 YR TREAS **3.01%**

YTD CHANGE **+27%**

### SINCE INCEPTION

THROUGH DEC 31, 2017

BROXTON **488.15%**

S&P 500 **170.59%**

DOW JONES **209.91%**

### BROXTON PERFORMANCE



## Broxton Portfolio

In August Broxton was down .6%, bringing the average returns to 3.36% for the year. In general value shares have risen less than the high-flying tech shares, many of which trade at Price to earnings ratios of over 100. We decided to highlight the price to earnings ratio of the current Broxton portfolio.

Broxton Holding	2018 PE X	Comment
Camping World CWH	8 X	<a href="#">Barrons article</a>
Ford F	7 X	<a href="#">Ford JP Morgan Presentation</a>
Genworth Financial GNW	4 X	2 <sup>nd</sup> Q EPS of 40 cents beat projections by 50%+
Harmony Gold	10 X	(year ended June 2018, adjusted)
Arcelor Mittal MT	4-5 X	World's largest steel company
Micron MU	3-4 X	Authorized the buyback of \$10 billion in shares
Orange Telecom ORAN	10 X	Saw strong growth in Africa and the Middle East
Qudian QD	5 X	2 <sup>nd</sup> Q earnings of 33 cents beat estimates by 40%
Viacom	7 X	Mission Impossible Fallout record opening
<b>Broxton Average</b>	<b>6.7 X</b>	Broxton earnings are 3 X higher than indexes
<b>S&amp;P 500 Index</b>	<b>21-23 X</b>	GAAP ratios

Not included: Master Limited Partnerships Sunnoco and Energy Transfer Partners & special situations RadNet and Oi Telecom.

Overall, we believe the current portfolio has tremendous potential and is significantly undervalued. Holdings Updates:

**Ford (F):** We initiated a small position in Ford following the announcement of strategic initiatives to reduce cost by over \$3 billion per year. Although the company is in the early rounds of a restructuring Ford has ample cash on hand to implement its plan. The company also highlighted plans for autonomous and electric vehicles.

**Camping World Holdings (CWH):** We initiated a position in CWH at an attractive 7 X 2019 earnings. The company operates RV dealerships that also perform repairs, sell insurance and have outdoor sports stores. CWH is 70% owned by [Marcus Lemonis](#). Recently, the 3rd Point fund run by Dan Loeb disclosed ownership of 2.8 million shares.

**Sunnoco (SUN):** Sun recently completed the sale of its convenience stores, reduced debt by \$2 billion and repurchased 17 million shares (units). The company will focus on managing and growing the fuel distribution business. Sun announced the closing of two acquisitions with the 2<sup>nd</sup> quarter earnings. The shares yield slightly less than 12%.

**Qudian (QD)** QD is a lending company in China that offers loans through mobile applications or apps. QD uses technology to analyze borrowers and quickly approve loans in as little as 10 seconds. The software can analyze as many as 1000 datapoints. QD has lower than normal default rates due to their in-depth analysis. The majority of Chinese consumers do not have banking relationships and fall into their customer demographic. So far, over 60 million consumers have downloaded their app. In 2018 QD announced the conclusion of certain parts of a partnership with Ant Financial (Ali Baba) and this caused the stock to decline further, (Ant only accounted for 2% of their originations). After reporting the recent quarter the shares declined even though QD produced \$109 million in net income (33 cents a share), up over 40% from 2017. Overall, an excellent quarter. We expect this growth to continue as the company continues to offer new lending products. The auto loan division was initiated in late 2017 and grew over 100% sequentially from Q1 to Q2. QD has \$150 million outstanding on its stock repurchase program as of the end of June, so the company may benefit from the low share price by buying back shares. QD is growing incredibly fast in this huge market and we expect that based on the most recent Q, the company could exceed \$1.75 in earnings in 2019. The current estimate is \$1.50 and the shares are trading around \$5. Our fair value estimate is between \$20 and 30 per share.

## General Market

What is going on with natural gas? Gas has historically been one of the most volatile commodities, but the price remains stubbornly below \$3 per 1000 cubic feet, far below the 2008 high of \$13.00. Nat gas is one of the few commodities that have fallen and remained below the 2009 lows. The financial crisis caused a drop in demand for commodities as well as shares but commodities like gold and oil have long since bounced and remain above those distressed levels. Further confounding the situation is the fact that gas prices are 60-100% higher in Europe and Asia. Domestic natural gas producers such as Southwest Energy (SWN), Chesapeake and Gulf Port Energy have seen their shares remain on average more than 80% below their 2014 highs.

“The natural gas market is highly seasonal, with inventories drawing down sharply in winter months, roughly November through March, while stocks build up in the late spring through early fall just in time for the next winter. Obviously, the exact pace of drawdown or replenishment depends on a lot of factors, including the swings in seasonal temperatures and the rate of production from shale gas drillers”. Luckily for the few remaining gas bulls this situation may be set to change! Domestic natural gas inventories are at the lowest level since 2014 and as of today, inventories were about 19% below last year and the five-year average. Which according to some analysts does not leave a lot of room for normal or stronger than normal draw downs. Natural gas export terminals called LNG terminals allow for our low priced gas to be shipped to Europe or Asia and are growing in number. In 2017 roughly 3% of U.S. production was exported through LNG Terminals. It is projected that this will grow to 10% by the end of 2019. At some point will we see a recovery in prices? This remains somewhat of a question of the weather, if we have a strong winter, prices could be driven quickly higher and possibly spike above \$6 and then remain closer to the pre 2008 average of \$4 or \$5 dollars.

## Broxton Capital Advisors

Broxton Capital is an investment manager located in Los Angeles and employs The Primary Broxton Strategy or “PBS.” The Primary Broxton Strategy or “PBS” for managed accounts. The PBS is a bottom up, fundamental strategy that seeks higher total returns with lower risk. The focus is on low risk investments with attractive return (LRAR Securities) with an average holding period of 18 to 36 months. The strategy invests in high yield, fixed income, and equities but does not have any allocation mandates.

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