



Broxton Portfolio

In May Broxton was down slightly, bringing the returns to a negative 1% for the year. May was marked by a short term drop in bond yields which caused the 10-year to drop briefly from 3.1% to 2.75%. 10-year Bond yields rose closer to 3% in early June. This small drop was what many of the mortgage applicants were waiting for and late May saw a surge in new loans. This was good for Genworth, one of the largest mortgage insurers in the U.S. The portfolio performance was slightly mixed with Genworth & BOFI Holdings advancing and Harmony Gold, Viacom and Arcelor Mittal losing ground. Three of the top four holdings in the portfolio (HMY, GNW & VIAB) are trading at an average of 5 X 2018 earnings. The market gained confidence as Treasury Secretary Mnuchin declared that trade wars were “on hold” and then came under some temporary pressure from the Italian election drama. Worthy of noting is that Italian bonds suddenly dropped to a yield of 3% on concerns that the new government would drop out of the EU. Highlights:

Genworth: (GNW) GNW posted strong earnings in early May which finally started to provide some relief for the shares. It became apparent that the company had ample liquidity and would resume dividends from U.S. mortgage insurance operations. Conference call quote: “Starting with U.S. MI, first quarter adjusted operating income increased 52% year-over-year to \$111 million, driven by insurance in force growth, strong loss performance and tax reform benefit. In Canada, excluding the impact of foreign currency, adjusted operating income increased 28% year-over-year to \$49 million as we continue to experience a strong housing market and underlying economic conditions. And in Australia, excluding the impact of foreign currency, adjusted operating income increased 38% year-over-year.” As of June 11, the Oceanwide transaction to purchase GNW at \$ 5.43 received approval from the Trump administration, sending the shares up 25%.

Viacom: (VIAB) (Paramount Studios above) Viacom posted good performance in its’ most recent earnings but this was overshadowed by a break out in legal warfare between CBS and the Redstone group. Zacks quote: “Viacom reported better-than-expected results for the second quarter of fiscal 2018 (ended Mar 31, 2018), wherein both earnings per share and revenues outpaced the Zacks Consensus Estimate. The company’s adjusted earnings from continuing operations of 92 cents per share surpassed the Zacks Consensus Estimate of 80 cents. Moreover, the bottom line expanded approximately 16.5% year-over-year.” VIAB is trading at 7 X 2018 projected earnings.

RadNet (RDNT) RadNet dropped on news that the severe northeast storms had hampered the Northeastern operations but quickly bounced back due to the temporary nature of the effect. Worth noting: large insurance companies are requiring insureds to use facilities like RadNet due to the cost efficiencies.

Harmony Gold (HMY). HMY continued down as the South African Rand/gold ratio suddenly improved dramatically in their favor. The company is now trading at roughly 25% of the price of comparable gold producers. [recent presentation](#)

YEAR TO DATE

As of May 31, 2018

BROXTON -1.03%

MARKETS

DOW JONES -1.29%

S&P 500 +1.53%

NASDAQ 100 +9.19%

HIGH YIELD -2.15%

REIT INDEX -4.93%

BOND YIELDS

10 YR TREAS 2.82%

YTD CHANGE .41%

30 YR TREAS 2.97%

YTD CHANGE .25%

SINCE INCEPTION

BROXTON 488.15%

S&P 500 170.59%

DOW JONES 209.91%

BROXTON PERFORMANCE



Oi telecom: (OIBR-C) Oi essentially exited bankruptcy in May producing its' first new balance sheet showing a net debt of roughly \$2 billion. The shares came under stress again due to the Brazilian truckers strike and the fall in the Real. Currently the company is valued at around \$4-5 billion or 2.5-3.5 X EBITDA. Oi plans to do a capital raise in July to bolster reserves and help with the planned network improvements. After the IMF gave Argentina \$50 billion in June the Real rapidly recovered 10%.

QUDIAN: (QD) Qudian missed earnings estimates for 1st quarter by 1 cent but exceeded the revenue estimate. The company was feeling some residual effects from the 4th quarter 2017 regulatory changes for lenders in China. Company website: "Qudian Inc. is a leading provider of online small consumer credit in China. We use big data-enabled technologies, such as artificial intelligence and machine learning, to transform the consumer finance experience in China." The company indicated that the situation had improved moving into the 2nd quarter: "Our loan book actually increased from RMB11.2 billion at the end of 2017 to RMB12.9 billion at the end of March 2018. And now has reached RMB14.6 billion to-date."

General Market

May marked a sudden surge in what we believe are the ridiculously priced internet stocks. We compared some of the companies to what we own. RadNet made about \$140 million in EBITDA last year. This compares to roughly the same amount of EBITDA from internet sensation Square (SQ). However, RadNet trades at a \$1.2 billion dollar market value and Square is valued at \$ 25 Billion. We have long believed that Salesforce.com (CRM) is extremely overvalued in fact the \$100 billion dollar company only posted \$235 million of operating income in 2017. This compares to the roughly \$700 million in operating income posted by Genworth, which is trading at a paltry \$1.75 billion. I guess you could see the next comparison coming.....Viacom posted \$2.4 billion in operating income in 2017 and is worth a cool \$10 billion but wouldn't you know it, internet sensation Netflix, which made \$838 million in operating income is trading at \$157 billion. We can easily see why, Viacom has 1.8 billion viewers worldwide and Netflix has around 125 million subscribers. Also, Netflix bonds are rated B+ (junk grade) and Viacom is rated BBB- (investment grade).

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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