

Letter from... France

# In France, it's good to keep it in the family

**H**istoric changes have taken place in France with the election of Emmanuel Macron as president. As a result, economic growth may be returning and with it, a changing investment landscape in France and Europe.

Investors are now more positive about European equity markets and their prospects, as evidenced by increasing inflows into the asset class recently.

However, when I invest in companies, I am more interested in valuations and finding those trading at discounts to net asset value. I look for where this discount could disappear or narrow substantially, rather than where the company is listed.

## Family affair

There are a dozen or more family controlled holding companies in France, ranging from names as recognisable as Christian Dior and Rothschild to the lesser known Rallye and, current personal favourite, Wendel.

These listed companies have a controlling or dominant shareholder from the family and a diverse portfolio of stocks in sectors such as ports, confectionery and medical equipment.

They tend to have long-term investment horizons and, if Macron's government is able to instigate some long-term, far-reaching changes, that will be positive for them. Many of

them trade on discounts of as much as 30%, although there are some that are on a premium.

## Broad appeal

I recently met with Wendel. It is a family controlled holding company with a market cap of more than €6bn. The Wendel family owns almost 40% of the company and three members of the family sit on the board.

What I find most interesting about this company is many investors assume that by investing in Wendel they get exposure to the French economy, and any of the associated risks. But Wendel actually provides exposure to a variety of industries around the world, as it owns a diversified portfolio of businesses.

Its largest asset is a 40% stake in Bureau Veritas, one of the leading global verification and quality control businesses with a market cap of more than €9bn.

Wendel has been a shareholder since 1995 and it plays an active role in the management of the company.

It also owns stakes in about a dozen unlisted businesses. The four main assets are: IHS, a leading owner of mobile phone towers in Africa; Allied Barton, a provider of security personnel in the US; flexible packaging manufacturer Constantia Flexibles; and Stahl, a global chemical solutions company.

Together with Bureau Veritas, these four unlisted busi-



**Joe Bauernfreund**  
Portfolio manager,  
British Empire Trust

nesses make up almost 80% of the total value of Wendel. They are high-quality businesses with exposure to a variety of growth and cashflow-generating businesses around the world.

During the past 15 years Wendel has returned 14% per annum compared with the MSCI Europe, which has returned 5.4%.

## True value

Despite this strong long-term track record, Wendel trades at a discount of around 25% to its net realisable value today.

We think this is an attractive valuation, particularly when you consider that some of these businesses are likely to be sold or taken to IPO in the coming year.