

Featherstone

Every dog has its day

PUBLISHED: 14 Apr 2011 PRINT EDITION: 14 Apr 2011

Tony Featherstone

One of the more interesting tables I have seen lately comes from an excellent quantitative research report on listed investment companies by the sharebroker Patersons. It shows the premium or discount of the larger LICs against their five-year average. A big gap between the two can suggest an LIC is good value or possibly overbought and is an interesting way to assess LIC opportunities.

LICs were badly out of favour 12 months ago and were even described as the "dogs of the ASX" in one newspaper. To me, that suggested a buying opportunity. In January, I wrote that the LIC sector should have more investor support this year, a trend that has quickened in the first quarter. The move to fee-for-service financial advice is reducing a disadvantage for LICs against managed funds – upfront and trailing annual commissions. And regulatory changes last year have made it easier for LICs to pay more consistent dividends.

The result is a declining average discount between LIC share prices and pre-tax net tangible assets (NTA).

The average discount to NTA has almost halved from 14.2 per cent in February 2010 to 7.8 per cent, on an unweighted sector basis, ASX data shows. In February 2009, the average discount was 21 per cent as the sector lost favour.

Larger, seemingly permanent, share price discounts to NTA are a problem and opportunity in some LICs. An LIC with net assets of \$1 a share might trade at 85¢ because it has a poor or limited record or patchy dividend history. The discount may be well deserved, or the LIC may be oversold and an opportunity for investors who can buy its assets at a 15 per cent discount.

The tightening of average LIC discounts to NTA suggests the easy gains have been made and that is true of some LICs. In January, this column identified the Contango MicroCap, WAM Capital and Clime Capital as LICs that did not deserve such large discounts. All are well-run LICs with astute managers.

Contango traded at a 21 per cent discount to pre-tax NTA at February 28, WAM Capital was 11.4 per cent, and Clime was 25.5 per cent.

The accompanying table shows LICs such as Australian Investment Foundation Company (AFIC), Argo Investments, Milton Corporation and Djerriwarrh Investments, which dominate the LIC sector by market capitalisation. The table is based on February 21 share prices and January 31 stated NTA (on a post-tax basis). It shows several big LICs trading at a premium below the five-year average.

Take the largest LIC, AFIC, as an example. Its premium of 14.2 per cent compares to a five-year average of 18.8 per cent. AFIC's February NTA premium was at 12.5 per cent. Argo's premium of 11.6 per cent compares to a five-year average of 17.6 per cent. Djerriwarrh's premium of 21.6 per cent compares to a five-year average of 14.6 per cent, which suggests it is more expensive.

Care is needed with such analysis because there may be good reasons why an LIC's premium or discount is below or above the historical average. Larger LICs are facing more competition from exchange traded funds (ETFs) that provide index returns at low cost. And the five-year analysis period includes the global financial crisis, which skewed averages for some LICs.

But this and other analysis I have seen recently on the LIC market confirm my thinking that the LIC sector has further to go in 2011. Valuations are not as attractive as a year or two ago but the sector has its biggest tailwind for some time. More research is being produced for financial advisers showing more interest in LICs and more stories are being written about them. Average 12-month trades in LICs are up about 10 per cent over the past year and the self-managed super funds boom bodes well for LICs that can provide greater certainty in dividends, franking credits and tax outcomes.

Still, caution is needed. Many of the 59 listed LICs are best avoided. But the biggest, some specialist small-cap and some international equity LICs, such as Platinum Capital, Magellan Flagship Fund, Hunter Hall Global Value and Templeton Global Growth, look interesting. Only Platinum is trading at a premium to NTA (9 per cent in February). International equity LICs may be next to move as more investors look to take advantage of the high Aussie dollar and the sharemarket recovery in the US and parts of Europe.

Increasing international equities exposure was a recent column theme. The better-regarded international equity LICs trading at big discounts to NTA look an interesting way to get that exposure.

Source: Patersons * to post-tax net tangible assets. Analysis at February 23, 2011.

	ASX Code	Current premium/ discount %	Usual premium/ discount %	%
Milton	MLT	2.4	14.4	-12
Platinum Capital	PMC	7.9	17.5	-9.7
Templeton Global	TGG	-17.5	-9.7	-7.9
Whitefield	WHF	-13.2	-6.4	-6.8
Diversified United	DUI	5.3	11.3	-6
Argo	ARG	11.6	17.6	-6
Aus United Investments	AUI	8	13.9	-5.9
Carlton Investments	CIN	-6.9	-2	-4.9
AFIC	AFI	14.2	18.8	-4.6
Ironbark Capital	IBC	-13.4	-10.1	-3.3
Aberdeen Leaders	ALR	0.8	2.7	-2
Mirrabooka	MIR	5.7	5.4	0.3
Djerriwarrh	DJW	21.6	14.6	7
WAM Capital	WAM	-2.4	-10.5	8.1
BRW				

Related News

Topics [Financial Markets](#)



Create an alert

Click on the links below to create an alert and receive the latest news as it happens

Topics [Financial Markets](#)