

Glenveagh Properties: What Activists and Hedge Funds Found in a Small-Cap Irish Homebuilder?

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Investors often ask themselves if it is possible to predict which companies will be targeted by activist investors. The motivation to do this is understandable. First, once activists are onboard, they will actively influence company and will do all in their power to make sure business value is reflected in the share price.

In addition, disclosure of share ownership by activist investors and large hedge funds is moving the shares of company up. Identifying future targets can give investors an extra edge and improve returns. As British economist John Maynard Keynes said: "Successful investing is anticipating the anticipations of others"

Can this be done? And if yes, how?

One possible solution is to focus on such factors as recent share price performance, company's return on equity, institutional ownership and presence of hedge funds that are known for activist campaigns.

However, I believe this is not enough. These factors and features certainly point one in the right direction overall. But it is not these characteristics themselves that attract activists or hedge funds.

It is the other way around: activists and hedge funds are attracted to a company, and it happens to possess certain attributes.

So, it is not surprising that shares of the companies they target do not perform well.

Return on equity factor is more problematic: who would pick companies based a low return of equity?

So, to make a long story short, even if you decide to use these factors in your decision-making process, actual implementation is very problematic.

The question then is what really attracts activist investors? How is it possible that despite all of market efficiency, a small pack of activist investors and hedge fund managers continue to come up with great investment ideas? Why these opportunities do not disappear?

Great investment managers are also good storytellers. Many investors believe that making good investments requires excellent skills in the analysis of financial accounting statements, building complex and detailed valuation models, forecasting future profitability of companies, and otherwise analyzing numbers “to death”.

In my book [Story Investing](#) I argue that understanding company’s story is much more important. Best investments are just like good stories or movies: with three-part story structure, important turning points, intrigue, drama, and surprises. One of the highlights of the approach is the proposal to develop both a historical as well as future narrative for a company and its share price. It is not only a question of providing verbal and common-sense explanation for the numbers.

I think activists are especially good at identifying this three-part story structure of complication, development, and resolution. It allows them to develop a sound investment thesis for a company. And of course, they aim to jump aboard the train at the middle of a development or at the beginning of a resolution part.

A good current example is Glenveagh Properties, Irish homebuilder.

Activist investment firm Teleios Capital Partners recently disclosed that it had accumulated a 10% position while hedge fund Helikon Investments Limited reported a 7% stake. Especially worthy to note that in July, US investment bank Bank of America/Merrill Lynch also disclosed a 6% position, while hedge fund GLG Partners reported a 3.8% stake.

One might ask what all these investors have found in a small-cap Irish homebuilder?

A lot of water has flowed under the bridge since global credit crisis of 2008. In October 2017 Irish homebuilder Glenveagh Properties plc completed an IPO raising EUR 550 million. These funds were used to acquire development sites owned by US distressed debt investor Oaktree Capital Management. Since IPO, company deployed more than EUR 700 mil of capital to acquire land portfolio and also, so far, delivered on its unit guidance plan for 2018 and 2019. The total land bank is for approximately 14,500 units and Glenveagh Properties plans to deliver 10,800 units during next 5 years (2020-2024).

What all these investors found here is a three-part story structure of complication, development, and resolution: credit crisis of 2008, IPO, and acquisition of land bank, and finally building and collecting profits.

Of course, this storytelling should be supported by standard analytics and fundamental valuation. But it is this art of narrative thinking and story composition that will ultimately make a difference.