Value Investor INSIGHT

The Leading Authority on Value Investing

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Beyond the S&P 500

Following the crowd has been a good place to be in the stock market for some time. On the chance that one day changes, we spoke with eight highly accomplished, crowd-avoiding investors about where they are finding opportunity today. Among areas of interest: energy, small caps, metals and mining, shorting, non-U.S. stocks and, of course, bargain prices.

Editors Note: *Research Affliates has a nice feature on its website that provides expected 10-year nominal returns for a wide variety of asset classes. Like most such forecasts – including those from GMO, Goldman Sachs, J.P. Morgan and others – they heavily weight current valuations in assigning the expected future returns.*

It's unsurprising, then, that Research Affiliates' expected future returns for various equity classes differ substantially from the 10-year historical returns of those classes. U.S. large-cap growth stocks, the stars of global equity markets for years, are expected to return a paltry 2.1% annually over the next ten years. Large growth stocks in non-U.S. developed markets are pegged to earn 3.1% per year. The top three categories for expected return are all value-based: emerging markets value (10.5%), developed markets ex-U.S. large value (9.8%), and developed markets small value (9.7%).

In the spirit that the next ten years may not look like the last ten years for equity investors, we are devoting this entire issue of VII to conversations with highly accomplished investors who are going against the grain to find unrecognized value in areas highlighted by their lagging 10-year historical returns shown in the chart above.

While hesitant to call the timing of any shifts in market leadership, these investors explain where they're finding opportunity: in value, of course, but also in energy, small caps, non-U.S. markets, metals and mining, and shorting. As Bob Robotti of Robotti & Co. puts it, "We like to say the puck is at one end of the ice, but the opportunity is at the other end and there's nobody in front of the net."

INVESTOR INSIGHT

Alissa Corcoran
Kopernik Global Investors

"We could make the argument that December 2024 may have been the moment of peak capitulation for value investing.."

Are we right in assuming you would agree that investors in today's market would be wise to look beyond U.S. megacaps?

Alissa Corcoran: It's no secret that much of the market's focus – exacerbated by the amount of money in passive strategies – has been directed toward the U.S., more specifically large-cap U.S., and most specifically the Magnificent Seven. I would add that more-volatile stocks have been completely shunned. With so much money in a relative handful of names that leaves tremendous opportunity elsewhere. For the way we invest, that has meant we tend to be active more outside the U.S., in smaller companies rather than large, and in cyclical resource companies in areas like energy, uranium, agriculture, lithium, platinum-group metals and gold. Close to 70% of our holdings are in non-index companies.

Another thing going on, of course, is the preeminence of more price-agnostic momentum investing, which is also somewhat a result of the rush to passive. We could make the argument that December 2024 may have been the moment of peak capitulation for value investing. As contrarians, we think that makes this an amazing time to be a value investor. Bubbles attract so much capital that a lot of things are disregarded and we believe as a result are inefficiently priced.

What prompts all that to change?

AC: We're the worst people to ask about catalysts, particularly around timing. If you look at history, trees don't grow to the sky and something big or an accumulation of smaller things can cause fundamental change in investment opportunity and investor perception. It could be concerns about the economic health of the U.S. It could be increased questioning of the AI boom. It could be a geopolitical shock of some kind. Stock prices have become so detached in many cases from underlying fundamentals. When the narratives driving that begin to change, people head for the exits quickly.

You've described finding mispriced value in large conglomerates outside the U.S. Describe the investment case for one of those, South Korea's LG Corp. [Seoul: 003550].

AC: Many conglomerates are trading at a discount to the sum of the market caps of their listed affiliates and at an even higher discount to our estimated sum-of-the-parts value. There are legitimate reasons for discounts, but in many cases – as we believe is the case with LG Corp. – the discounts are just too large. You don't see this much in the United States. Berkshire Hathaway doesn't have a conglomerate discount. It's also interesting that private equity firms have been attracting so much investor interest, when they are effectively privately held leveraged conglomerates.

LG is a holding company with four big publicly traded ownership stakes. LG Chem [Seoul: 051910] is in petrochemicals and is one of the largest electric vehicle battery manufacturers. LG Electronics [Seoul: 066570] makes home appliances, refrigerators, washing machines and TVs, and also owns a stake in LG Display [Seoul: 034220]. Then there's LG Uplus [Seoul: 032640], one of three leading telecoms in South Korea, whose stock we also hold separately. The final big piece is LG Household & Health Care [Seoul: 051900], a consumer-products company not unlike Procter & Gamble that owns a number of popular brands in South Korea. LG Corp. collects royalties from these companies so has some independent revenue and there are also some other smaller holdings, but the bulk of the parent-company value resides in the ownership stakes – ranging from 33% to 38% – in these four companies.

One must always ask about corporate governance in South Korea.

AC: There are clearly the typical issues around cross-holdings and complicated organizational structures, but we generally don't see huge corporate-governance issues here. It's a family-run business, very much in the South Korean way. But we haven't seen them make egregious acquisitions or engage in self-dealing to the detriment of public shareholders. One thing they did very well was to sell in an IPO a piece of an EV-battery business, called LG Energy Solution [Seoul: 373220], in early 2022 at the height of market sentiment for that industry.

One could say there's not enough regulation to force positive change in corporate governance, as we're starting to see in Japan, but there are some encouraging signs of progress. Given the discounts to value we believe we're paying in Korea, we don't have to count on a dramatically changed emphasis on shareholder value to find good investments.

Is the current South Korean political environment a concern?

AC: Yes, but that has been a concern in the country for quite some time. We also don't consider it incrementally worse than the political environments we're seeing around the world, including in Europe and in the United States.

Now trading at ₩65,700 per share, walk through how you're valuing LG Corp.'s stock today.

AC: If we just add up all the publicly traded stakes LG Corp. owns and make appropriate adjustments for corporate liabilities and the like, the company is worth more than ₩14 trillion, vs. the current ₩10.4 trillion market cap.

We also value each of the four big businesses independently. Here we're doing all the fundamental analysis and valua-

INVESTMENT SNAPSHOT

LG Corp.
(Seoul: 003550)

Business: Holding company whose primary assets are stakes in publicly traded companies including LG Chem, LG Electronics, LG Uplus and LG Household & Health Care.

Share Information
(@3/28/25, Exchange Rate: $1 = ₩1,468):

Price	**₩65,700**
52-Week Range	₩65,500 – ₩89,100
Dividend Yield	4.5%
Market Cap	₩10.42 trillion

Financials (TTM):

Revenue	₩7.18 trillion
Operating Profit Margin	(-13.6%)
Net Profit Margin	8.0%

Valuation Metrics
(@3/28/25):

	003550	S&P 500
P/E (TTM)	17.7	23.1
Forward P/E (Est.)	n/a	21.1

Largest Institutional Owners
(@12/31/24 or latest filing):

Company	% Owned
Skagen AS	17.8%
Azimut Inv	1.1%
Cobas Asset Mgmt	1.1%
RAM Active Inv	1.0%
Union Investment	0.7%

Short Interest (as of 3/15/25):

Shares Short/Float	n/a

LG CORP PRICE HISTORY

THE BOTTOM LINE

Conglomerates based outside the United States like this one in South Korea can trade today at surprisingly large discounts to their sum-of-the-parts values, says Alissa Corcoran. Valuing each of its four large holdings separately and in what she considers a conservative way, she estimates the stock's fair value at close to 3x the current level.

Sources: S&P Capital IQ, company reports, other publicly available information

tion work, analyzing Porter's Five Forces as well as 30 years of data of comparable companies around the world. We then risk-adjust for the specific case. For example with LG Uplus, dominant global telecom companies on average trade at about 3x sales, but because it is one of three leading players in a highly competitive market we haircut that valuation to only 1.5x sales. Doing all that in what we think is a conservative way across the board, we arrive at a fair value for LG Corp. of close to ₩30 trillion, nearly 200% higher than the current market value.

In U.S.-dollar terms the stock today is lower than it was in 2008, but the book value per share since then is almost 4x higher. We don't know when that dynamic changes, but we believe it will be worth the wait when it does.

You mentioned earlier finding opportunity in metals and mining. How does Seabridge Gold [SA] fit the profile of something you find interesting?

AC: The market does not appear to love gold miners. Gold-mining shares overall are roughly 40% lower than they were in 2011, while the gold price over that period is 80% higher! The market particularly doesn't like gold companies that have large resources but are years away from producing gold. Seabridge falls in that category.

The company's primary asset, KSM, is located in British Columbia, Canada and is one of the largest gold/copper projects in the world. Between resources and reserves, KSM has an estimated 90 million ounces of gold, 20 billion pounds of copper and 420 million ounces of silver. To put that somewhat in perspective, Seabridge has roughly half the ounces of gold that Barrick Gold [GOLD] does, but Barrick's market cap is 30x Seabridge's. The story of market neglect is still very much the same as the last time we spoke [*VII*, February 28, 2023], but in the interim Seabridge has upped its resource estimates, raised some equity without diluting its share count per ounce of reserves, and continued to receive permitting approvals. And, by the way, the price of gold is up a lot.

How close is Seabridge to actual production at KSM?

AC: The plan has been to enlist a partner or partners to actually mine the resources, as Seabridge doesn't have the expertise to do that. They're talking with potential partners all the time and we are a bit surprised nothing has happened yet, especially as the gold price has continued to climb.

We don't believe there's any issue with the resource base. A lot can go wrong in developing mines and bringing them to production, but it's rare to see huge changes in reserve estimates like those for Seabridge that have been verified by credible, independent sources.

We think the delay in any deal has more to do with the big gold miners being reticent to act on the assumption that the current gold price is sustainable. That's somewhat understandable given the severity of the last down cycle in the gold price and how overextended so many companies found themselves. But if you're like us and believe gold prices may still have considerable room to run, we think it's only a matter of time before we see the big players recognize they should be more actively replacing their depleting reserve bases.

INVESTMENT SNAPSHOT

Seabridge Gold
(NYSE: SA)

Business: Owner of KSM, located in Canada and one of the largest undeveloped gold projects in the world with estimated resources and reserves of 90 million ounces.

Share Information (@3/28/25):

Price	**11.76**
52-Week Range	10.14 – 20.55
Dividend Yield	0.0%
Market Cap	$1.18 billion

Financials (TTM):

Revenue	n/a
Operating Profit Margin	n/a
Net Profit Margin	n/a

Valuation Metrics
(@3/28/25):

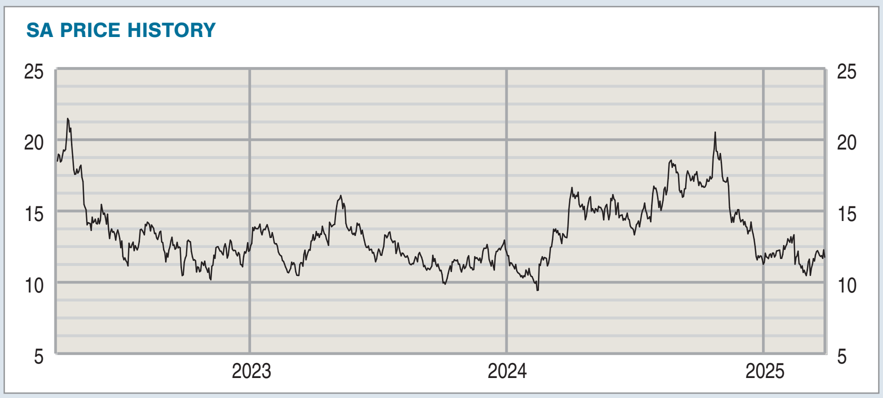
	SA	S&P 500
P/E (TTM)	n/a	23.1
Forward P/E (Est.)	n/a	21.1

Largest Institutional Owners
(@12/31/24 or latest filing):

Company	% Owned
Pan Atlantic Bank & Trust	10.6%
Kopernik Global Inv	10.6%
National Bank Inv	3.5%
Van Eck Assoc	3.4%
Tidal Inv	2.7%

Short Interest (as of 3/15/25):

Shares Short/Float	4.1%



THE BOTTOM LINE

The market has generally been slow to recognize value in gold miners, says Alissa Corcoran, but especially in those miners like this one with large reserves but not yet producing. Recognizing valuation here "isn't a precise exercise," she estimates the present value of the company's future free cash flows could be 5x today's market value.

Sources: S&P Capital IQ, company reports, other publicly available information

How do you arrive at a fair-value estimate for such an on-the-come stock, now trading at $11.75 per share?

AC: We run a lot of different scenarios. One straightforward one is to assume a mine-specific recovery rate of 72% on the estimated 89 million ounces of gold resources and reserves, netting 64 million ounces of produced gold. Apply today's $3,000-per-ounce gold price to that and there's $192 billion in gross value. It costs money to pull it all out, but assuming they can earn 20% operating margins over time gets you to $38 billion in cumulative operating cash flow. They'll spend lots of money on capex, say $8 billion, so call it $30 billion in free cash flow over time. They'll need to compensate a partner. We need to account for the time value of money. We need to build in a margin of safety for the typical risks involved with mining companies. So let's haircut that free cash flow by 80%, leaving $6 billion in present value against a current $1.2 billion market cap.

This obviously isn't a precise exercise, which is likely why the market doesn't see the extent of the value here that we do. We're trying to be conservative, even more so because we're not in this case assigning any value to the copper and silver or contemplating a higher gold price than today's. The risk/reward here just strikes us as very attractive.

I should add that gold and precious metals is an area where you want to have diversified exposure. Too much can go wrong at an individual company. In addition to companies like Seabridge that have big resources and small market capitalizations, we also own some of the streaming companies like Wheaton Precious Metals [WPM], as well as big producers like Barrick and Newmont [NEM].

Do you have incremental portfolio cash on hand today to put to work?

AC: Our cash position today is close to 10% of the portfolio, which will naturally go down if markets continue to struggle. We've taken some profits in things like CK Hutchison [Hong Kong: 1] after the big increase in the stock when it agreed to sell its Panama Canal ports to a group led by BlackRock. We've been recycling incremental money back into areas such as traditional energy and uranium.

We owned put options on the S&P 500 in 2020 that were a source of cash when the market corrected. We own some now as well, which we were able to buy when implied volatility was well below historic averages. These options may again be a source of cash going forward. VII