EVALUATE NEWSLETTER

August 2020

Welcome to Evaluate Research's Newsletter for August 2020! This newsletter focuses on:

- **2 New Buys: HK-listed REMT Group [601_HK] & US-listed Silvercrest Asset Management [SAMG_US]**
- **Large-caps vs. Small-caps: Widening divergence impacting small-cap stocks globally**

Two New Recommendations: Growth + Deep Value

We have recently initiated coverage on **Silvercrest Asset Management Group [SAMG_US]** which represents a unique mix of solid growth, high value-added investment performance, a huge FCF, impressive dividend yield, and strong management. Trading at extreme "deep value" multiples, the stock is still relatively undiscovered and undervalued. Our multiple recent conversations with management suggest they are optimistic about future growth. The key tenets of our investment thesis include:

- **AUM Growth:** As of December 31, 2019, AUM growth of 32% CAGR since its inception in 2002 through year-end 2019, and +32% in 2019. 98% client retention historically.
- **Revenue and EPS growth:** 6-year 8.0% revenue and 16.7% reported net income CAGR.
- **Solid Q2 results:** SAMG reported revenues and EPS both above our expectations; with strong asset growth, significant inflows, and continued above-benchmark investment performance.
- **FCF and Dividend Yield:** 13% FCF yield [18% FCF yield on EV], and a 5.2% dividend yield on modest EPS/FCF payout ratios. [note: all metrics based on initiation report price: $12.12]
- **Deep Value Metrics:** 9.5x P/E [6.7x ex-cash], 5.0x EV/EBITDA, and 29% net cash/market cap.
- **Strong Management, Insider Buying:** ~40% insider ownership, strong investment performance.

Also, we have initiated coverage on another unique HK-based global leader with high margins and rapid growth**, Rare Earth Magnesium Technology Group Holdings Limited [REMT Group - 601_HK].** The company mainly engages in the research and development, production, sales and marketing of magnesium and rare earth magnesium alloys. The key points of our investment thesis include:

- **Rapid Revenue Growth:** Increasing production enhancement and efficiencies driven by 22 patented production processes. We expect revenue for the REMT Group to grow at a CAGR of 14% from HK$1.51 bn in FY2019 to HK$2.52 bn in FY2023E.
- **High Margin, High Growth Strategy:** Sale of high margin differentiated products along with economies of scale with vertical integration**.**
- **No Direct Competition:** An industry leader and the only HK-listed company specializing in rare earth magnesium alloy production, there are no companies in China manufacturing the same kind of rare earth magnesium alloy products that REMT produces.

We have met the senior management of REMT in Hong Kong before the onset of the pandemic and also had several telephonic interactions with the management of both companies.

Evaluate Research is currently the only firm whose research reports/estimates on SAMG and REMT Group are now available without cost to all investors on Bloomberg, S&P Capital IQ, etc.

Please see the reports on our website: https://evaluateresearch.com/all-reports/.

Small-cap Investor Apathy Intensifies last 2 years, Less Research Coverage

While global stock markets have rebounded strongly from March lows, small-cap stocks continue to significantly lag behind large-caps. This is leading to increasing investor apathy and neglect, and brokerage firms are accelerating dropping research coverage as well. It is tougher than ever before for small-caps to connect with both individual and institutional investors. Evaluate Research seeks to meet this current unmet need for high quality coverage on small/mid-cap stocks and helps to communicate with the market, share important updates, and make available detailed research reports and estimates free of cost to all investors.

Additionally, value stocks have also trailed growth stocks over the past 5 years; this too disproportionately impacts smaller companies which tend to trade at low multiples.

Driven by higher growth rates [from smaller bases] and cheaper valuations, small-caps have historically outperformed large-caps. As is evident in the chart below, in the 20 year period [as far back as some of these indices go] from 1994-2014 [i.e., before the recent 5 year anomalous period of small-cap underperformance], the S&P small-cap [red line] return of 10.8% and mid-cap [dotted yellow line] return of 12.0% were ahead of the large-cap S&P 100 and S&P 500 returns of 9.3% and 9.4%, respectively.

Unlike this prior historical trend, over the past 2 years, US small-cap stocks [the white line in chart below], up 9.7% in total and 5.9% CAGR, have significantly underperformed large-caps [red line], which were up 39.5% in total and 22.7% CAGR.

Finally, the small-cap underperformance is clearly a global phenomenon. Looking at Asian ex-Japan stocks over the past 5 years, small-cap stocks [the white line in chart below], up 18.9% in total and only 3.8% CAGR, massively below large-caps [red line], which were up 113.5% in total and 17.8% CAGR.