

**KTS**  
CAPITAL  
MANAGEMENT



## **KTS weekly update Nr. 26**

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The 23<sup>rd</sup> of July 2021

# Gold stock's valuation

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- The manager of the Quantex fund is rightly pointing out that gold stocks are a screaming buy, with valuations at 1/3 of S&P500 Index and FCF 2x higher; and he is not alone in holding this opinion!
- Analyzing the metrics: the FCF yield offered by gold miners is 6.91% vs 3.31% for the S&P 500 Index. Return on capital is 10.30% vs 6.84%, net debt to EBITDA 0.13 vs 1.3 and profit margins are 19% vs 9.47%
- Gold miners all-in production costs are 1'000 USD/ounce, as a result of years of cost cutting. With a stable gold price at around 1'800 USD/ounce, gold miners are reaching record margins of 800 USD/ounce.
- The final comment is: “nobody cares... until somebody does!” It is difficult to see more M&A activities taking place as the major gold miners have already merged. Indeed, we have to restrain ourselves from investing more in the space, because we find the valuations to be so attractive. Currently, none of the other market sectors offer such compelling valuations. We have to follow the key investment principals of diversification and sound risk management to avoid concentrated risk. This is why we are not increasing our exposure, despite the strong and justifiable reasons for doing so. We feel comfortable with our investments in the fund Bakersteel Electrum and Precious Metals.

# Fintech and venture capital

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- Apparently, the Fintech company Revolut is planning to launch an IPO on the London Stock Exchange.
- Revolut is valued at USD 33 bio, which is 100x revenues. How can that valuation possibly be justified? They do so by showing that they are growing revenues, services and users; as well as expanding rapidly into new markets. Revolut grew revenues by 57% yoy last year. If it kept that rate for 5 years it would hit USD 5 bio in revenues by 2026.
- But, Revolut's strategy of moving fast and `breaking things` approach has led to run-ins with the regulators. In the past, the high volume of user activities (especially payments) resulted in an increase in KYC (know your client) and due diligence work from the side of Revolut. Consequently, Revolut's users are nowadays less active than before, which is translated into lower profitability. Profitability has ultimately proved to be lower than competitors like Amazon Web and others. This means that Revolut's business model of is not as scalable as most market participants had thought. Higher activities, especially in payment traffic, has also translated into higher due diligence work and increased monitoring from the side of regulators, due to the higher risk of money laundering.
- KTS is aware that Fintech is the future and that the space contains plenty of attractive start ups, which have enormous potential. Therefore, we are considering making a small investment with our best in class fund Fasanara. The fund is working with many Fintech startups in segments like direct lending and crypto. Given that Fasanara is one of the most important clients for such start ups, they know exactly which companies are of better quality and will provide future innovation and are not just burning cash.

## General news

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- China's central bank decided to reduce the reserve requirement ratio by 0.5% for banks, in order to boost lending and push the economic recovery. This should result in about a USD 154 bio rise in long term liquidity.
- In the weekly edition of "The Economist", two articles caught our attention: the new GPT-3 AI (artificial intelligence) software can, basically, be used to write computer code by itself. Therefore, the access to GPT-3 is restricted to avoid the risk of software producing fake news or flood social media with "trolling and griefing" messages! Sounds slowly, but surely, like "Matrix" and is quite scary. If such software were to land in suspect hands with the wrong intentions.....what then?
- The second article is about the French government's decision to allow only fully vaccinated people to enter restaurants, bars, trains and other public places. This step was actually a logical consequence and citizens have to be aware that the Swiss covid certificate is valid only for one year. So everyone can deduce by themselves, that next year (years!) we are going to be required to vaccinate again.
- Tesla is introducing an FSD subscription (full self-driving) charging USD 199 or 99 (depending of the level) a month, instead of a flat USD 10k fee. FSD does not actually offer full self-driving. Human drivers will still need to be alert and ready to take over. We have to admit that Tesla's business model is very efficient and market leading. Competitors are probably going to introduce FSD as well. However, they are behind in technological innovation meaning that Tesla still has some years time advantage.
- Very interesting research of our best in class Fund Fasanara on the future of 60/40 portfolio:  
<https://www.fasanara.com/scenario04012021>

## General news

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- General market breadth is still deteriorating.
- It is most important to highlight the fact that all the recent fashionable investment trends are deeply negative YTD. Lumber has lost 2/3 from the top, small caps are negative YTD, meme stocks are getting crushed, SPAC on average is -40% from the top, AKR innovation ETF is down 25% and cryptos are -50% from the top. Many portfolios are actually bleeding YTD!
- Another interesting article in “The Economist”, where is explained that Biden is keeping the same “hard line” doctrine against China. Arguments support the belief that China is “less interested in coexistence and more interested in dominance”.

## Bitcoin news

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- Visa reported that over USD 1 bio worth of cryptocurrency spending activity was made by its customers in the first half of 2021! Apparently Visa's crypto-linked card is gaining popularity by the day and is partnering with over 50 cryptocurrency firms.
- Mr. Elon Musk revealed that he personally owns Ethereum and the price rallied 12%. He also still owns Dogecoin and Bitcoin. The price of Dogecoin actually fell around 79% from the peak in May 2021 (from 0.74 USD to actual 0.16 USD). The CEO of Tesla added that the company is eventually going to restart accepting Bitcoin again. In our eyes Mr. Musk is not credible anymore, after what happened a few months back, but market participants still like to listen to him.

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