Discerning Deep Value from Deep Trouble.

Mikael's Perspective

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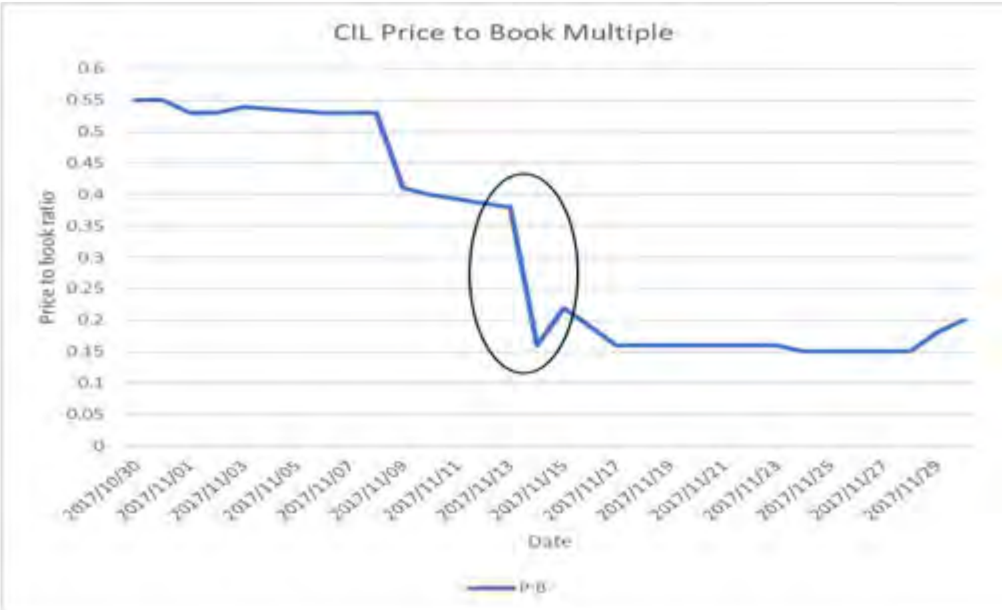
Deep value investors may have jumped at the opportunity to buy Consolidated Infrastructure group on November 15th when it traded at 16% of book value. Our mental model begs to differ.



1) CIL relies almost entirely on one client. This client is Eskom who has a weak balance sheet.

2) Any company with balance sheet trouble will try to extend payment terms with suppliers. This pushed out CIL's debtor days from 56 days in 2008 to 281 days in 2017. This led to CIL amassing R3.9 billion in contract receivables, larger than their shareholder equity. More staggering still is that it will take nearly a year to be collected.

3) CIL funded this cash flow hole with creditors and balance sheet debt which stand ahead of equity shareholders in the queue.

At this point in time, the facts lead us to conclude that CIL represents Deep Trouble, not Deep Value.

Our work continues...