



A UK focused Turnaround Value Investment Partnership

www.aozorastep.com

david@aozorastep.com

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TODAY'S TOPICS

1. Inflation peak?
2. Geopolitics
3. Consumer confidence and economic conditions
4. How the micro fits the macro

1. INFLATION PEAK?

CPI EX-ENERGY CLIMBS M-O-M

+1.2% March 2022 CPI Print

Biggest drivers:

-3.8% used cars (4.17% weight)
+0.2% new vehicles (4.1% weight)
+11.7% car and truck rental (0.14% weight)

+3.3% lodging away (0.9% weight)
Of which +3.7% hotels, motels (0.81% weight)
+0.5% rent of shelter (32.32% weight)
+2.0% transportation services (5.6% wgt)
+0.6% apparel (2.56% weight)
+11% energy (7.55% weight) → 0.83% of 1.2%

+1.0% Food (13.41% weight)

+0.6% Medical care services (6.93% wgt)

+0.4% April 2022 CPI Print

Biggest drivers:

-0.4% used cars (4.04% weight)
+1.1% new vehicles (4.01% weight)
+0.8% car and truck rental (0.15% weight)

+1.7% lodging away (0.99% weight)
Of which +2.0% hotels, motels (0.86% weight)
+0.5% rent of shelter (32.08% weight)
+3.1% transportation services (5.67% wgt)
-0.8% apparel (2.54% weight)
-2.7% energy (8.3% weight)

+0.9% Food (13.36% weight)

+0.5% Medical care services (6.88% wgt)

PPI DEMAND FOR TRADE AND SERVICES DECLINES

+1.6% March 2022 PPI Print

Final demand goods	+2.4%
- Foods	+2.5%
- Energy	+6.4%
- Finished consumer goods	+0.7%
- Private capital equipment	+0.8%
- Goods for export	+1.7%
Final demand services	+1.2%
- Trade and services	+1.9%
- Transportation and warehousing services	+5.7%
- Finished consumer services	+0.4%
- Private capital investment services	+0.9%
- Services for export	-0.4%
Final demand construction	+0.6%

+0.5% April 2022 PPI Print

Final demand goods	+1.3% (33.3% wgt)
- Foods	+1.5% (5.7% wgt)
- Energy	+1.7% (6% wgt)
- Finished consumer goods	+1% (12% wgt)
- Private capital equipment	+1.2% (5.7% wgt)
- Goods for export	+1.2% (7.1% wgt)
Final demand services	+0% (65% wgt)
- Trade and services	-0.5% (20.2% wgt)
- Transportation and warehousing services	+3.6% (4.4% wgt)
- Finished consumer services	-0.2% (32% w)
- Private capital investment services	+0.6%
- Services for export	-0.2% (2.5% wgt)
Final demand construction	+4% (1.75% wgt)

2. GEOPOLITICS

EUROPE'S RELIANCE ON RUSSIAN ENERGY IS HIGH

- After Uniper and others now also RWE and ENI opened rouble accounts with Gazprombank
- Venezuela oil production may rise 200k b/d with sanctions relief, and production would take 18 months to rise under relief
- Iran oil production could rise by 1-1.5mio b/d with sanctions relief (which is equivalent to the current SPR release, i.e. 1mio b/d)

Energy	EU consumption 2019	Energy Imports from Russia
Oil	38%	29%
Gas	25%	40-45%
Coal	11%	54%
Renewables	11%	-
Nuclear power	11%	20-40%
Hydroelectricity	4%	-

EUROPE NEEDS THE IRAN DEAL

Top 10 Consumer		in bcmpa	Top 10 Producer		in bcmpa
US		847	US		921
EU		470	Russia		679
Russia		444	Iran		244
China		307	Qatar		178
Iran		224	China		178
Canada		120	Canada		173
Saudi Arabia		114	Australia		154
Japan		108	Norway		114
UAE		76	Saudi Arabia		114
India		60	EU		101

IT'S NOT ALL ABOUT ENERGY

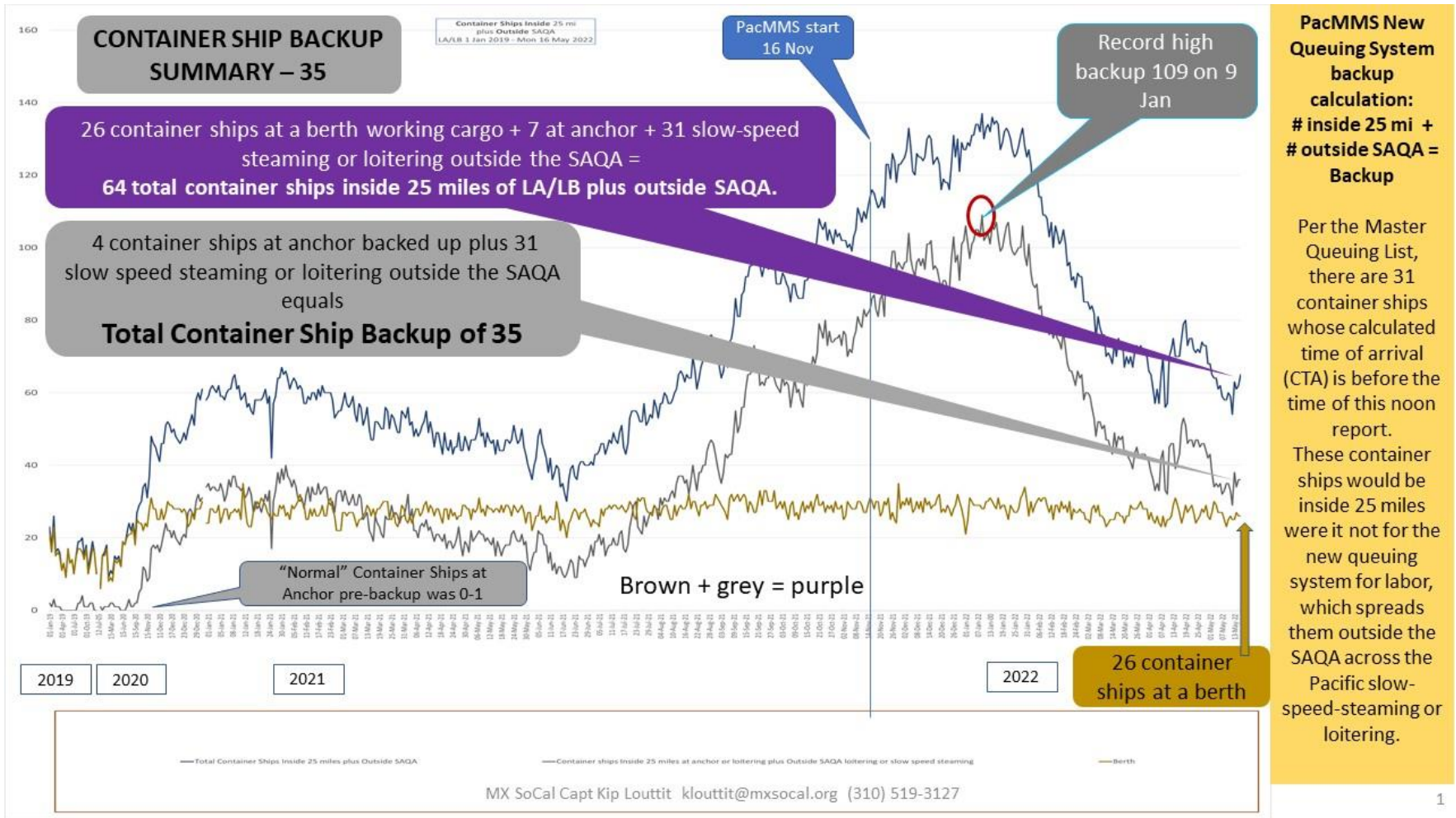
- Semiconductors:
- Ukraine is about food & semiconductor gases (50% of world supply)
- Taiwan is about semiconductor production (52% of world foundry market – TSMC)
- ...and countries ruling over this... rule the world

- Food:
- U.S. Department of Agriculture says China has 69% of world grain reserves in warehouses

- Conflicts:
- Venezuela, Iran due to energy (oil & gas)
- North Korea/South Korea, Taiwan, Ukraine (semiconductors & Ukraine also food)

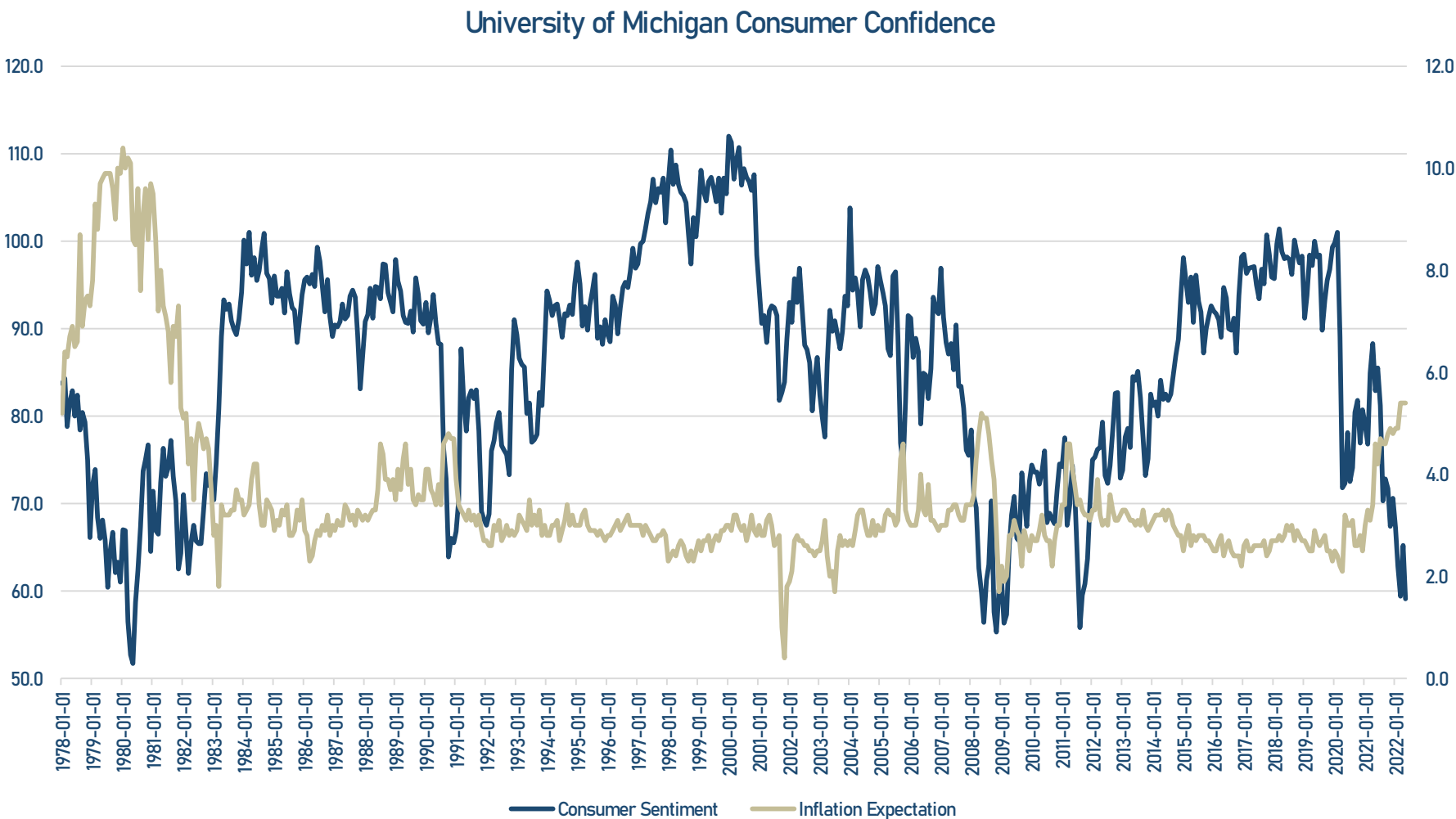
SUPPLY CHAINS HAVE EASED CONSIDERABLY

- Ships inbound LA/Long Beach Port increased from 69 on 13th May to 91 on 18th May



3. CONSUMER CONFIDENCE & ECONOMIC CONDITIONS

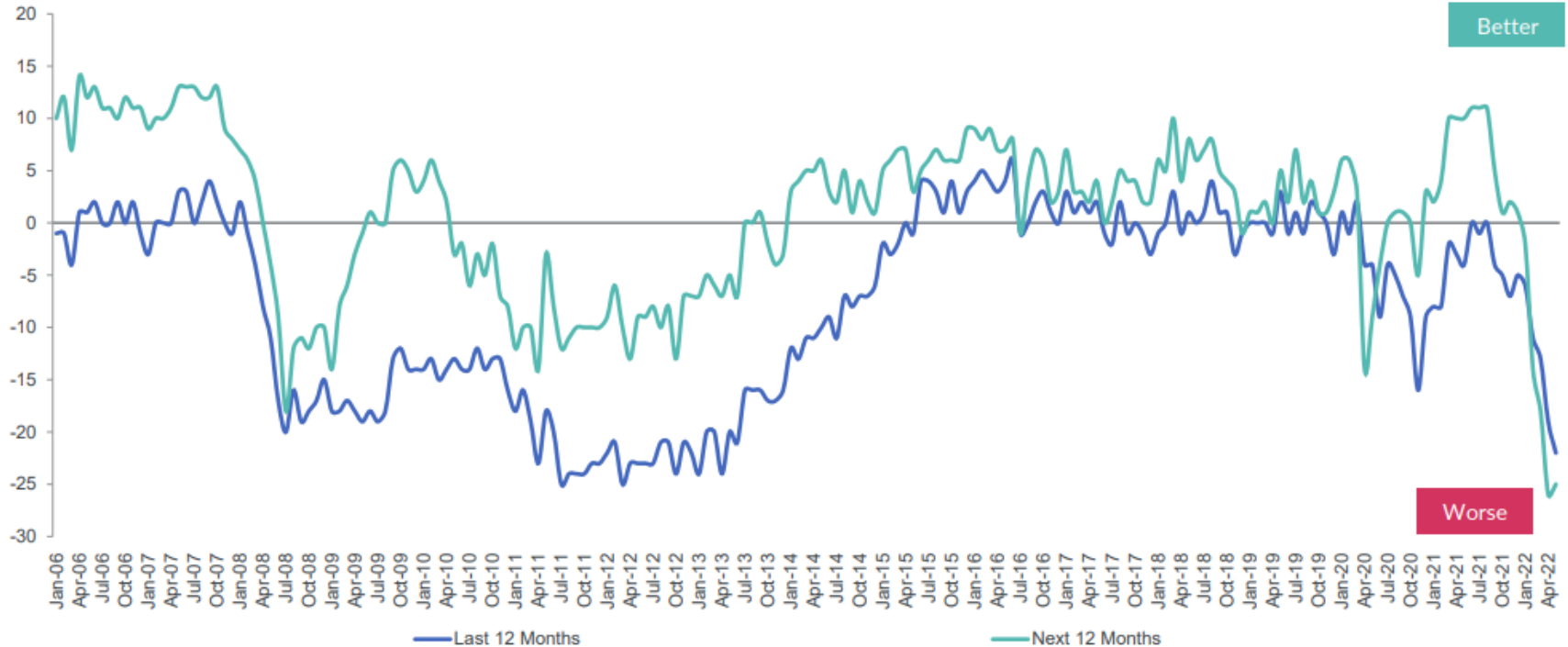
US CONSUMER AT 2008 EQUIVALENT LEVELS



IS THE CONSUMER REALLY WEAK? (UK - 1)

- GfK Consumer sentiment to record low of -40 in May vs. retail sales up +1.4% in April

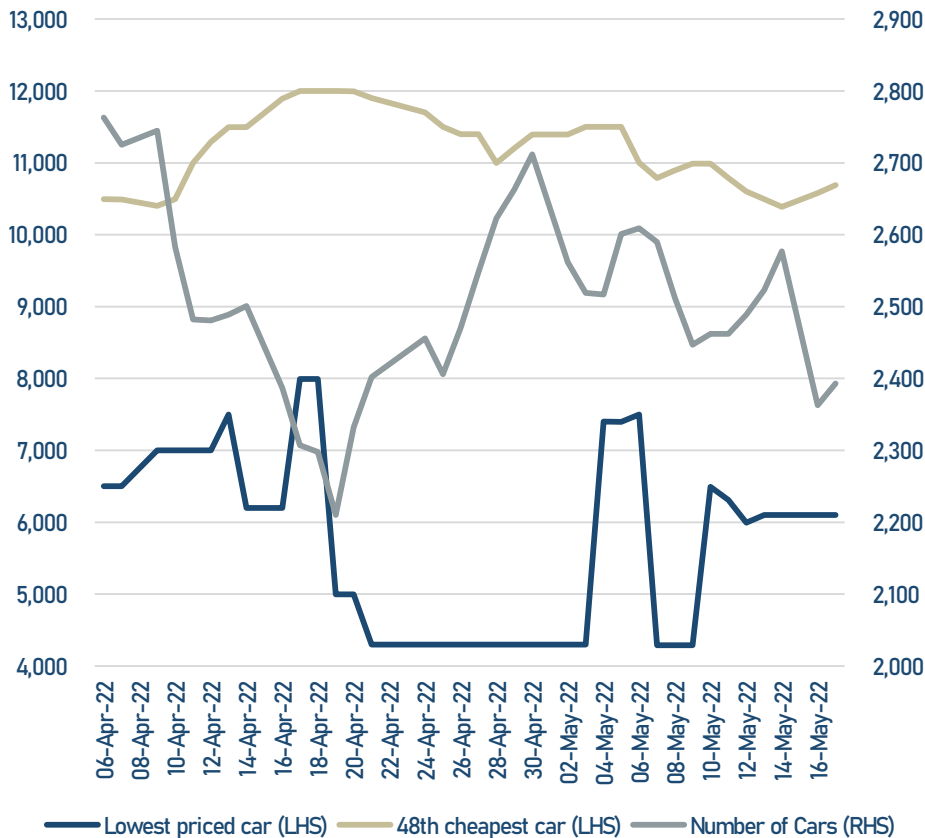
Personal financial situation of household



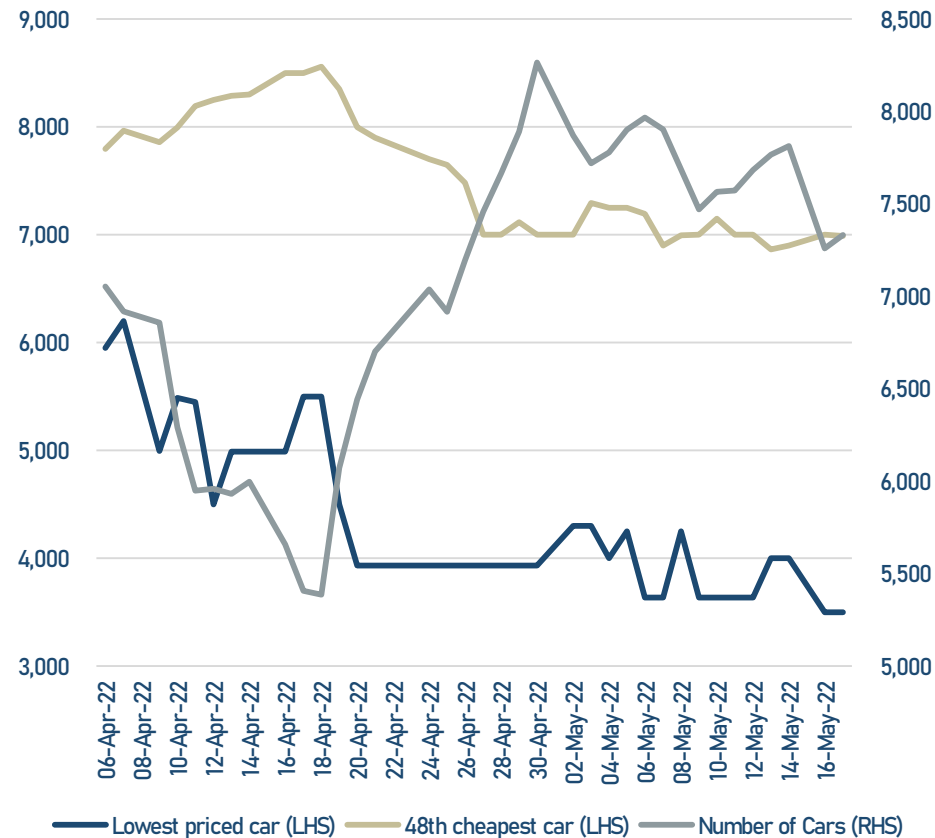
IS THE CONSUMER REALLY WEAK? (UK - 2)

- Lower priced used cars decline in price, but supply is overall getting tighter

Vertu Motors Used Cars (in £)

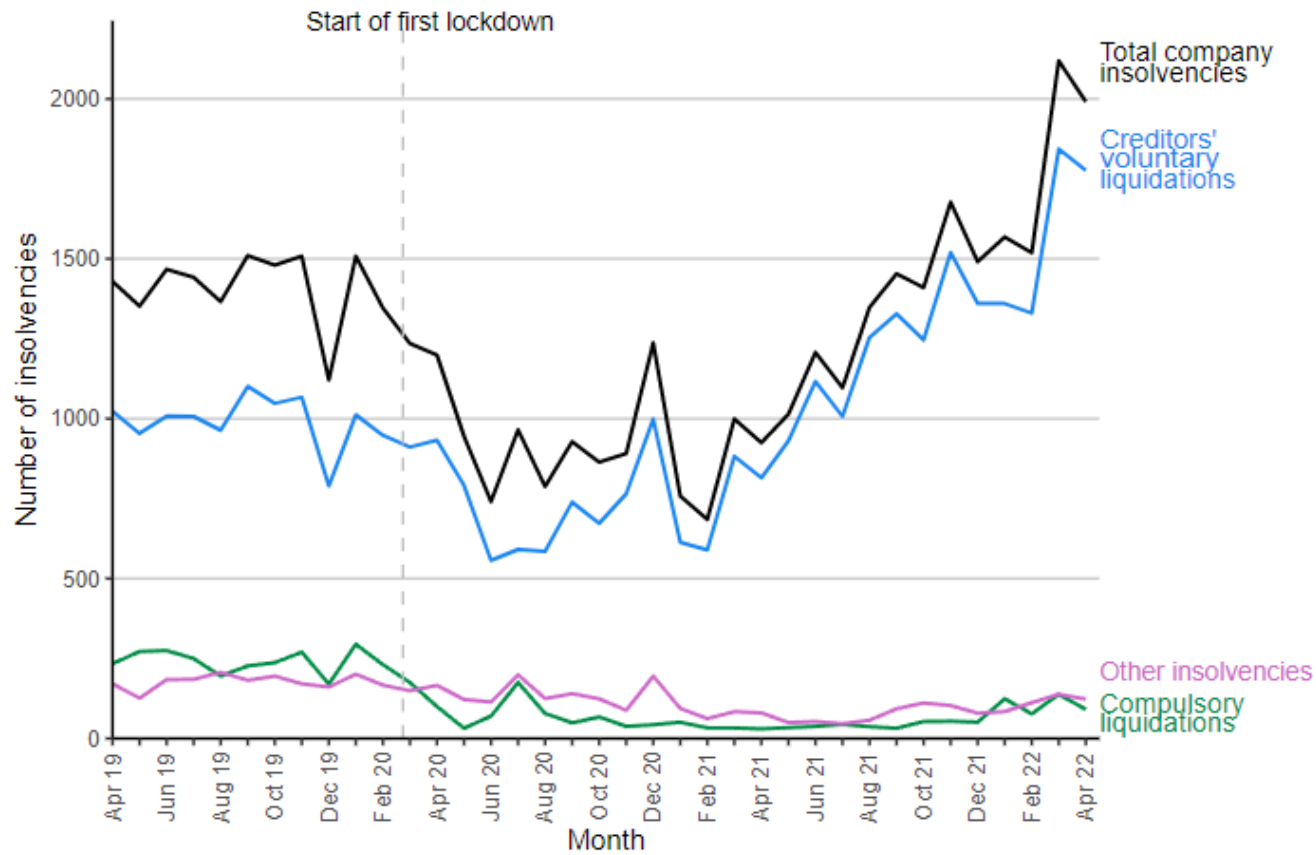


Bristol Street Motors Used Cars (in £)



UK INSOLVENCIES ARE ON THE RISE

- UK voluntary liquidations are above pre-pandemic levels



4. HOW THE MICRO FITS THE MACRO

SHORTAGES CAN OPEN UP OPPORTUNITIES

- Portfolio: Centrica, Vertu Motors & Go-Ahead Group
- Centrica – target £7.5bn market cap:
 - Trading update revealed earnings per share expectations of GBp 10 vs. GBp 88 market price
 - Ofgem variable tariff adjustment will lead to less switching: New supplier needs to pay up to 85% of previous supplier's hedging costs when prices declined by >10%
- Vertu Motors – target £300mio market cap
 - £100mio cheaper than all its competitors
 - 5%+ yield including share buybacks
 - Car shortages set to continue, but demand has started to decline (could be held up by rental firms)
 - Agency model a risk – margins to decline to 5% vs. current 7-8%
- Go-Ahead – target £600mio market cap
 - Return of public transport, 5% dividend yield, healthy cash flows and earnings (7 p/e)
 - Bus agency model a risk, as it is being implemented in Manchester

