

It's All About Stock Picking for Top Spain Traders as Vote Looms

2015-12-18 08:06:16.262 GMT

By Camila Russo

(Bloomberg) -- While the turmoil from Spain's upcoming general elections has hurt investor sentiment and the country's stocks, Fidelity Investment Services Ltd.'s Fabio Riccelli managed to do well.

His strategy: pick shares like clothes retailer Inditex SA and flight-bookings provider Amadeus IT Holding SA, which get most of their sales from Europe and have a track record of growing earnings. The fund he oversees, the 1 billion-euro (\$1.1 billion) Iberia Fund, has rallied 17 percent this year, compared with a 3.9 percent loss in the benchmark IBEX 35 Index. It's beaten 93 percent of its peers, data compiled by Bloomberg show.

"Spain's national election at year-end has created an element of uncertainty, therefore impacting investors' sentiment and market volatility," said Riccelli. "Investors should focus on stock selection and owning companies that can grow irrespective of the economic/geopolitical backdrop. I expect corporate fundamentals to drive long-term performance."

Profits at Inditex and Amadeus will rise more than 10 percent in the current fiscal year, analyst estimates compiled by Bloomberg show. The holdings in the Iberia fund derive a large portion of their earnings from the region, whose economy is improving. Spain alone is forecast to grow 3.1 percent this year and 2.7 percent next, boosted by the European Central Bank's stimulus program.

Riccelli isn't alone. Juan Gomez Bada of Avantage Capital EAFI targets small- and medium-sized companies that will benefit from the nation's economic recovery and low borrowing costs. He manages the Avantage Fund FI, which invests mostly in Spanish assets and has gained 11 percent this year. Medical equipment company Prim SA and pasta maker Ebro Foods SA are some of his picks.

"There's been a lot of uncertainty surrounding elections all year, and there will still be volatility after the vote," Gomez Bada said in a phone interview from Madrid. "We look for companies that will be long-term winners, that are well managed and that look after shareholders' interests."

The elections this year have hit Spain just as some of its biggest companies got battered by losses in South America and a rout in energy prices. Banco Santander SA, which receives more than 40 percent of its revenue from the region, has lost more than 30 percent in 2015. Abengoa SA, the operator of solar and wind farms that's at the brink of what would be one of Spain's largest bankruptcies, has tumbled 83 percent and was removed from the IBEX 35.

The losses recently spiraled, with the equity index falling for 10 straight days through Dec. 14, its longest streak since 1990. It closed 17 percent below its April high on Thursday, becoming one of the worst performers in western Europe this year.

Riccelli says there's potential for a broad market rebound if a center-right coalition wins the Sunday vote. That would lead to a continuation of the reforms aimed at reducing the deficit. The ruling People's Party is leading polls, which are pointing to a possible coalition with Ciudadanos, frequently described as centrist.

Societe Generale SA's Lyxor UCITS ETF IBEX Mid, also one of the best performers this year, tracks an index that follows mid-cap companies. The exchange-traded fund jumped 15 percent in 2015.

"There is a clear appetite for the mid and small caps," said Raphael Dieterlen, Societe Generale's head of ETF and index portfolio management. "We've seen a lot of assets gathering in these companies, especially in Spain, as it's one of the countries where valuation remains behind others."

The IBEX 35 trades at 15.2 times estimated earnings, less than the benchmark equity gauges for Italy and France, data compiled by Bloomberg show.

While Spanish stocks trade near a two-year low, Avantage Capital's Gomez Bada says they are turning the corner. Once the weekend vote is out of the way, investors will be back, and companies will benefit from the ECB's stimulus and lower oil prices.

"All of that helps the tail wind blow in Spain's favor," he said.

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