

CONTRA THE HEARD

(Last update Nov. 29 - MoneyShow)

UPDATE Nov. 30, 2021

VICE-PRESIDENT'S PORTFOLIO

NASDAQ Buy: Bel Fuse Inc. "B Shares" (BELFB)

Purchase Price	\$11.96
Shares	2,000
Buy Limit	\$14.00
Sell Target	\$22.50 - \$26.50
Current Price	\$12.04

And then, all of a sudden, from out of the blue, we're adding "Omicron" to our Covid era lexicon and the world is once again worried as borders shut, scientists scramble, and markets tumble. The last time this happened - March 2020 - the VPP did not try and pick a bottom and instead gingerly acquired a couple of new names during the deluge. We don't know if this is a blip or the start of something more serious, but the strategy will be the same. To that end, Ben and Phil have bought Bel Fuse at \$11.96.

This electronic component and circuit manufacturer has been high on the Contra radar since August when it was kicked out of the S&P 600, though Phil has had it on his watch list for longer. The company has been in business since 1949, and been public since 1998. There are two types of shares: the BELFB shares, which we purchased, are non-voting and pay out \$0.28 in dividends annually, while the BELFA shares are voting shares and pay out \$0.24 annually.

Bel Fuse's connectivity, magnetic, and power solutions products cover many industries from military and aerospace to cloud networks and electric vehicle infrastructure. One could say the company's business of powering, protecting, and connecting electronic circuits is hardwired into the backbone of our modern infrastructure and economy.

Bel Fuse has many attractive attributes: the top line and backlog are growing after dipping with the pandemic's onset, profitability is generally decent, and it has produced annual free cash flow in nine of the last 10 years. The balance sheet is strong, there is currently no short-term debt, receivables exceed payables, and current assets roughly triple current liabilities. The goodwill and intangibles are modest, long-term debt is stable and reasonable, and retained earnings are solid. Moreover, management has kept the share count even at 12 million shares over the past decade.

BELFB's forward yield is roughly 2.4 percent, the payout ratio is currently a very low 17 percent, and valuations look good across the board. We like companies that make money and trade under book value. The historic chart is also "spiky" - a very technical and highly scientific Benj term - which suggests that it could shoot through the sell target but then fall back to earth if the past is any indication of future events. Finally, insiders own a healthy 8.75 percent of shares outstanding, and some smart investors (such as Oaktree Capital Management and Renaissance Technologies) are material owners.

As for negatives, the company has government sponsored unions in the UK and Mexico, these can be difficult to negotiate with. Bel Fuse also has a high concentration of fixed assets in China. This presents investors with multiple potential problems. China seems to be in a cycle of power outages or floods and typhoons, while its trade relationship with the rest of the world is dicey. Like many enterprises, the supply chain disruption is hurting overseas operations, but that will change with the march of time.

Finally, in 2014 and 2015 management bit off more than it could chew with the acquisitions of Power-One Solutions and Emerson Network Power Connectivity Solutions. These acquisitions proved to be costly and hard to integrate. Though the company's smaller and more recent acquisitions suggest they have learned from past transactions, as we've said before it only takes one or two big deals gone wrong to sully a corporation's prospects.