



Bond street blues

Art and antiques dealer Mallett is in the mire. So why is **Richard Beddard** buying its shares?

The investment case for Mallett is straightforward. There's blood on Bond Street. The antiques and art dealer, which operates a showroom from one of London's premier Mayfair addresses and has another in New York, made heavy losses in 2009 and even heavier losses in 2008, as a result of the savage recession in the market for high-quality antiques and art.

A year ago the world's most expensive chair sold for £19.6 million at auction. Yet at its current share price of 61p, investors value Mallett at less than half that price. That takes into account everything it owns: Meta, an arty furniture maker it launched two years ago; James Harvey British Art, a gallery; and Mallett's 60 per cent stake in Hatfields Restoration.

The market for fine and decorative art fell by 26 per cent in 2009, as Partridge Fine Arts, a rival dealer, went into administration. In 2008 Mallett wrote off 17 per cent of the value of its stock because of falling prices, and postponed a plan to move from its expensive showroom to a less salubrious part of Mayfair because of crashing commercial property prices.

To cut costs, Mallett has shed staff, cut travel and scaled back Meta, and it is selling more items on consignment on behalf of the owners, so it doesn't have to spend as much buying stock.

It may have to survive on gruel for a while longer. Selling items on consignment earns the company lower profit margins than selling its own

stock. Moreover, customers are more discriminating. Instead of kitting out whole houses, they want individual items.

For the minority of investors attracted to bad news, there's plenty of that at Mallett, which means the shares are dirt cheap. They cost just 70 per cent of the company's net working capital per share, which is the value of its current assets (mostly antiques and art) minus all its liabilities. Yet according to the F_Score, the credit scoring system I use, Mallett is financially strong. In cash terms, it remained profitable this year, although admittedly by selling off stock. It has no long-term debt and very little

in the way of liabilities.

The F_Score has quite a good record as an early indicator of recovery, but it is a long way from being infallible. Investors who buy the shares now are taking a risk that the recession in art and antiques outlasts Mallett's ability to stay solvent.

However, the shares are priced for insolvency anyway. Its net working capital is a 'back of a fag packet' measure of how much the company would raise if it liquidated its most marketable assets now, and as the market price of the company is lower, the implication is that shareholders who buy now would get their money back.

Don't hold me to that calculation if Mallett ceases trading, but since there's a good chance it will recover I reckon the risk/reward ratio is tilted in our favour.

My recent experience with OPD, a corporate headhunter,

illustrates another danger. I have ejected it from the Thrifty 30 because it is to delist, so it will no longer be possible to buy and sell its shares on the stock market. The portfolio took a small loss, and no matter how good OPD's prospects are, the Thrifty 30 won't benefit.

Although eight major shareholders at Mallett own nearly 69 per cent of the shares, this is six per cent short of the 75 per cent required to vote the company private, so I don't think there's much danger of that. The Weinstock family is the biggest shareholder. The other seven shareholders will probably have little interest in running a private company.

MORE THRIFTY 30 INFORMATION

blog.iii.co.uk/about-the-thrifty-30/

This month I decided that the future of the video games industry is too uncertain to invest in retailer Game, and commercial cooker manufacturer Lincat is a shade too pricey. Shenanigans forced me out of OPD, but I added Mallett to the Thrifty 30.

IN:

Mallett:

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OUT:

Game:

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Lincat:

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OPD:

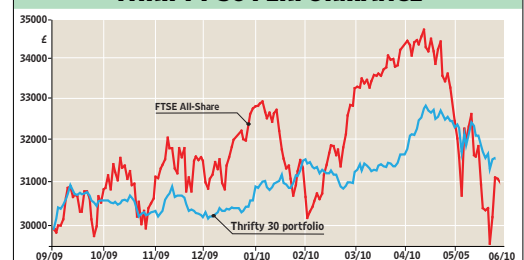
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MALLETT

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THRIFTY 30 PERFORMANCE



Notes: Transactions include fees and tax. Dividends and sale proceeds are credited to the cash balance (currently £9,216), which earns no interest. An amount of £30,000 invested in the Thrifty 30 in September 2009 was worth £31,558 on 1 June 2010. An amount of £30,000 invested in a FTSE All-Share exchange traded fund over the same period was worth £31,321. The objective is to achieve a positive inflation-adjusted return and beat an investment in the FTSE All-Share index handsomely over any five-year period. **Source:** Sharescope