CITYWIRE ELITE COMPANIES

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Causeway Elite quant picks three top stocks

Arjun Jayaraman highlights three favourite stocks held by his funds.

BY Algy Hall

Arjun Jayaraman is an Elite Investor who runs the Causeway International Small Cap and Emerging Markets funds with Elite co-managers MacDuff Kuhnert, Joe Gubler and Ryan Myers.

He's a quant who focuses on both top-down and bottom-up factors and also draws on insights from Causeway's fundamental analysis team.

Here, Jayaraman highlights the investment cases behind three of his funds' top holdings.

REC

15 Elite backers

REC (IN:532955) is an AA-rated Indian lender, which Jayaraman is backing to get exposure to the country's amazing economic growth on the cheap. Lenders are generally regarded as geared plays on the economies they serve. But with REC, there is an added dimension based on the industry it finances.

'It's a company that does infrastructure loans in India,' said Jayaraman. 'It's mainly in the power sector, but it's also getting into other types of infrastructure.

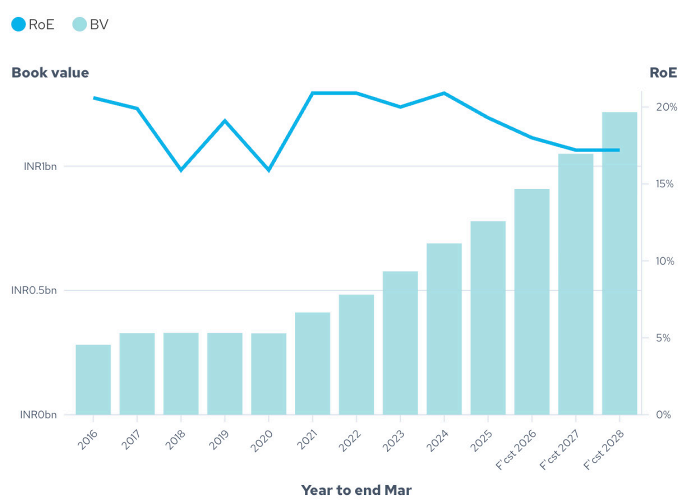
'India has chronically underinvested in infrastructure over decades. If you compare India to China, there's no comparison in terms of infrastructure spending. There's got to be a lot more spending in India if it's going to pick up some of the manufacturing that's going to leave China to places that are more friendly to the US. So, this company really sits in a sweet spot in terms of facilitating that move.'

However, the positioning of the business is not its only attraction. Despite the rapid growth in REC's balance sheet and a very attractive level of profitability – return on equity is forecast to be 18% over the next 12 months – the valuation looks very low, especially in comparison to other Indian lenders.

'The Indian market is a pretty expensive market. Not surprisingly, given the fact that India has a high GDP growth rate of 6% plus,' Jayaraman said. 'This company is majority owned by the government, and a number of investors don't like that, but we like it because it trades at a very interesting multiple.'

The shares are currently valued at just six times forecast next year earnings, 1.1 times forecast book value and offer a prospective dividend yield of over 5%. The rock-bottom rating is despite REC achieving annualised earnings per share (EPS) growth of 26% over the last five years and forecasts for 10% annually over the next two.

REC is producing strong and profitable growth



Source: FactSet, consensus broker forecasts and adjustments • RoE= return on equity
BV = book value

Key facts - REC Limited

Market capitalisation	INR1,066bn	Price	INR405
52-week high/low	INR650 / INR357	F'cst RoE	18.7%
F'cst price to book	1.13	F'cst dividend yield	4.9%
F'cst price to earnings	6.0	12-mth share price	-33.0%
F'cst EPS growth	9.1%		

Source: FactSet, as of 25 Jul 2025. EPS = earnings per share. RoE = return on equity. Forecasts based on next 12 months.

'This is very cheap for an Indian financial,' said Jayaraman. 'I wouldn't characterise it as a really high-growth company, but I would characterise it as a very stable growth company, and we think the runway for this company in terms of infrastructure spending is very long.'

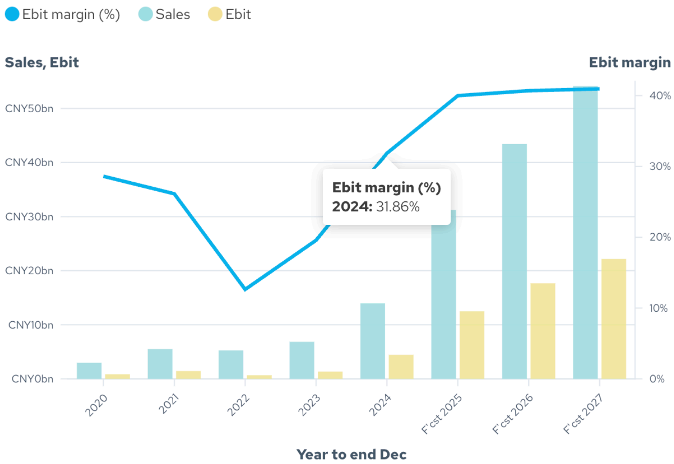
Pop Mart

7 Elite backers

A high growth play Jayaraman and his team are excited about is Chinese company Pop Mart (HK:9993), which boats a top AAA Elite Companies rating.

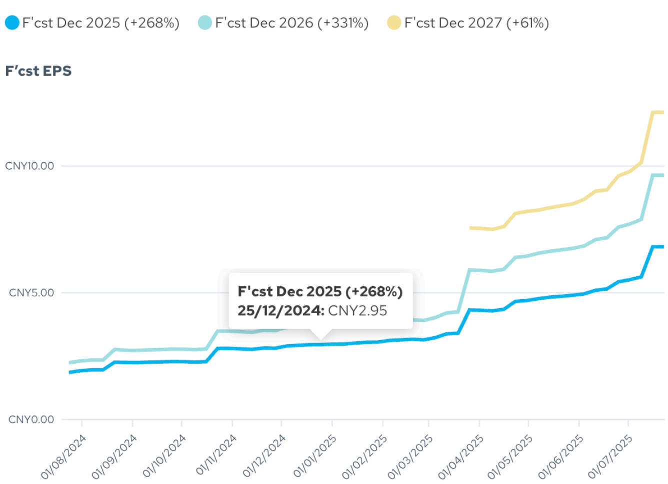
'They make these little sort of feel good, plush toys,' said Jayaraman. 'There's a

Pop Mart has grown rapidly and profitably since its late 2020 IPO



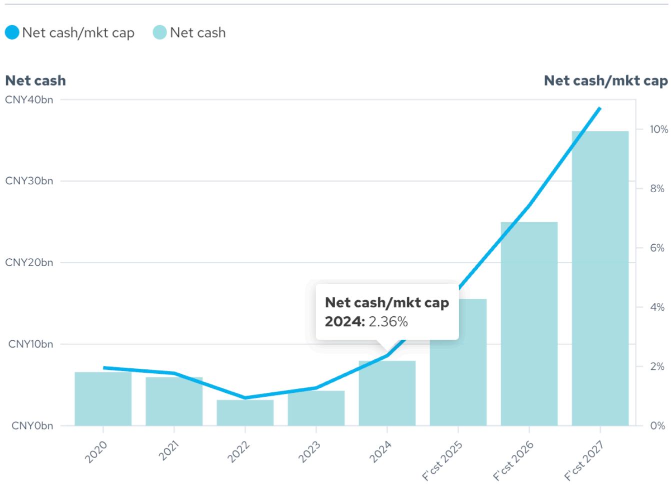
Source: FactSet, consensus broker forecasts and adjustments • Ebit = earnings before interest and tax

Analysts' forecasts for Pop Mart have skyrocketed
12-month forecast EPS change



Source: FactSet. EPS = earnings per share

Pop Mart's cash pile is forecast to grow fast



Source: FactSet • Market capitalisation as of 23 Jul 2025

Key facts - Pop Mart International Group Limited

Market capitalisation	CNY340bn	Price	CNY253
Net cash	CNY9.25bn	Net debt/Ebitda	-
52-week high/low	CNY283 / CNY37	Return on capital employed	40.2%
F'cst price to earnings	29.9	F'cst dividend yield	1.1%
F'cst EPS growth	70.5%	12-mth share price	527.0%

Source: FactSet, as of 25 Jul 2025. EPS = earnings per share. Ebitda = earnings before interest, tax, depreciation and amortisation. Forecasts based on next 12 months.

brand there.'

Indeed, the power of the brand is evident in the margins the company reports. Gross margins last year came in at 65% while operating margins were 32%. Brokers forecast profitability to head higher. Meanwhile, the company's return on invested capital came in at a hearty 28%.

Not only does the company make high returns on its investments, but it appears to have ample opportunity to invest in expansion, making it look like a compounding machine.

'It is a stock with significant growth prospects,' said Jayaraman. 'We like it for the strong estimate upgrades.'

Upgrades to estimates over the last 12 months have indeed been truly phenomenal. EPS forecasts for the current year have been hiked by 268% and for the 2026 financial year are up 331%.

The geographic spread of the business is an added attraction for Jayaraman.

'They're growing their business all over the world,' he said. 'One of the things we like, and with Chinese companies specifically, is when they can grow business outside of China because the Chinese market, for various reasons, has increased level of risk.'

Cash is rolling in from Pop Mart's operations to fund its international expansion. In fact, analysts expect the company to generate more cash than it knows what to do with, with net cash forecast to balloon over the coming years.

Jayaraman regards the stock as not being cheaply priced at 30 times forecast earnings, but there seems to be incredible momentum in the business and the shares, which have managed a better-than-six-fold return over just 12 months.

Hanwha

A favourite value play of Jayaraman's is Korean conglomerate Hanwha (KR:000880). It is also an illustration of how the views of Causeway's fundamental analysis team can influence its quants.

'Hanwha's underlying businesses include a security company called Hanwa Vision, a defence company called Hanwha Aerospace and a life insurance company called Hanwha Life,' said Jayaraman.

'Korea has historically traded at a big discount to other countries, including Japan and places like that, because corporate governance has been pretty bad,' said Jayaraman. 'But in the past year, and especially since the new president JM Lee was elected [in June], there's been a real focus on improving that.'

Hanwha shares shot up this year

Five-year total return

Source: Factset

Key facts - Hanwha Corp

Market capitalisation	KRW7,046bn	Price	KRW94,000
Net cash	KRW1,615bn	Net debt/Ebitda	-
52-week high/low	KRW113,500 / KRW26,000	Return on capital employed	5.0%
F'cst price to earnings	7.8	F'cst dividend yield	0.9%
F'cst EPS growth	29.4%	12-mth share price	216.5%

Source: FactSet, as of 25 Jul 2025. EPS = earnings per share. Ebitda = earnings before interest, tax, depreciation and amortisation. Forecasts based on next 12 months.

'Historically, [Causeway's team of fundamental analysts] have been very negative on some of these Korean conglomerates because they felt the corporate governance was really problematic. But for the first time in a long time, our team is saying there is some real change going on.'

Hanwha shares have already jumped strongly on the introduction of rules favouring the interests of minority shareholders, but with the shares priced at just 0.65 times book value, Jayaraman thinks the re-rating is not over.

'It's already done well, but we think there's more to go given the interesting developments.'

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