Twitter Thread by Rodri V.R.

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■ The effect of Currency Exposure on Shareholders Equity ■#

When we invest, one important aspect to consider is our portfolio exposure to currencies. It is not important where the company is trading, but where and how is making business ■■



Keypoints ■■:

- In which currency is the company getting paid?

- In which currency is the company paying their costs?

- Are they hedging?

- In which currency is their cash, investments & deposits?

I specially look at them in companies with business in LATAM, Africa or Asia. ■

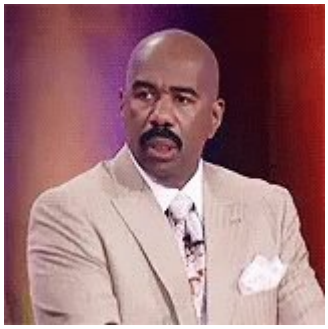
One of the checks you make is looking at the "Other comprehensive income".

I remember that I was very confused the first time I look into a company from a developing country (Pakistan). ■■



It was a software company (Really good ones in Pakistan) and they seemed to be doing pretty well (Positive Income) but the equity was just decreasing. WTF?

Reason: They were very exposed to Pakistan Rupee!



■■Here you go ■■

They were collecting most of their cash in Ruppes...

	2018	2017
Net income (loss)	$ 4,306,888	$ (4,978,030)
Other comprehensive income (loss):		
Translation adjustment	(9,386,033)	778,673
Translation adjustment attributable to non-controlling interest	3,074,532	(122,749)
Net translation adjustment	(6,311,501)	655,924
Comprehensive income (loss) attributable to NetSol	$ (2,004,613)	$ (4,322,106)

In most cases it is not a big deal, specially if we invest within Europe or North America or companies that hedge.

But as an advice please check "Other comprehensive income" or at least check if Income corresponds to the increase on Shareholders Equity
And careful with net cash!



Anyways, I am a curious person and for my investments I try to monitor my exposure to currencies. Specially since I buy worldwide and lately most in Asia

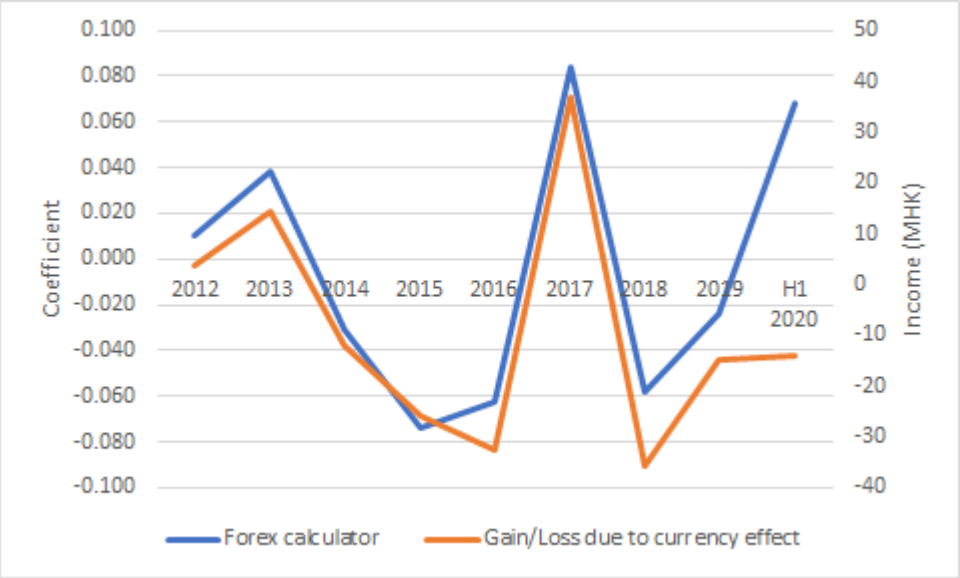
For example, for Winox Holdings I have created a coefficient model that forecast the Annual Gain/Loss due to currency effect

WINOX

which is part of the Other comprehensive income.

For H1 2020 they report a loss of 13.9MHKD. My model estimates a gain of around 35MHKD for 2020 FY. so basically almost 50MHKD of gains which is 6% of the company market share.

Lets see in a month if I was right or not!



Anyways the exposure in Winox is pretty low. It doesnt matter much on the valuation but there are some others that I am following that it is mostly 20-25% of market cap. I am still doing some research on this side in microcaps because the share price doesnt seem to reflect it■■

You have the Winox investment thesis in this thread if you like to read it. One of my biggest positions by the way

Hope you like the currency thread/advice, cheers! ■■

https://t.co/iKWBlzdrxM

> ##\U0001f4b5Mi \xfaltima inversi\xf3n en microcap China\U0001f1e8\U0001f1f3 \U0001f4b5##
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> Winox Holdings $6838.HK (7% cartera), vientos de cola gracias a la demanda de smartwatch, m\xf3viles \U0001f4f1, "know how" en acero inoxidable durante 20 a\xf1os, adem\xe1s de su ubicaci\xf3n cerca de Shenzhen.
>
> Potencial 30% IRR \U0001f525
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> \U0001f53dDentro hilo\U0001f53d pic.twitter.com/p4q5dsRbCk
>
> — Rodri V.R. (@HolyFinance) December 7, 2020