BINGO CALLER: WHY I'M RETHINKING SHORT REPORTS

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22/03/2021

A negative short report on a company you own may test your resolve, but it should not impact your investment. If anything, you should be pleased that someone has, free of charge, alerted you to something which challenges your investment thesis on a stock. In this case study, we look at the example of Bingo Industries.

There are only two times the share price matters when investing. The day you buy the shares and the day you sell the shares. If someone releases a report, which turns out to be false, then it doesn't really matter that the share price fell after the release of the report. As long as one is not leveraged into the stock, then one is not a forced seller. If someone releases a short report which is in fact accurate, then I really need to sit up and take notice and stress test my investment thesis. Someone has, free of charge, alerted me to something which may change my investment thesis on a stock.

That was my view until the day someone dared to write a short report on a stock I liked. In early February the curiously named Snowcap chilled the market with a short report on Bingo Industries. When we saw that a short report had come out on Bingo, we were angry. How dare some nobody speak ill of a company we liked! They don't know what they are talking about. These guys are self-interested and all they want is to drive the share price down. Where are the regulators?

After taking a cold shower (to wash away my hypocrisy), I sat down with a cup of tea and read through the report from cover to cover (twice). There were a few things which I found questionable in the findings. One such example was where the author was trying to make the point that Bingo is well and truly undercutting its competitors by charging clients $137.50/tonne for waste collection vs its competitors at over $300/tonne. This was misleading as the $137.50 quoted by Bingo relates to an excess weight charge. There were a few other areas which were inaccurate and others which seemed to be just innuendo designed to cast negative aspersions on the founders of the company. However, there were a few claims which were well researched and required further work.

Recycling rethink

This included the claim that the amount of waste recycled by Bingo was less than 50%, which compared to Bingo claiming it was 83%. Apart from the credibility issue, this is a really important issue for the investment case. Bingo generates very healthy margins on a global perspective. This can be a red flag as it may indicate that the company is over-earning. I have previously taken comfort that this is sustainable from the fact that Bingo is vertically integrated and recycles most of the waste it receives rather than getting charged expensive landfill fees. If the short report could prove that Bingo were not recycling 83% then either the company was illegally dumping waste, or the margins were too high. Either scenario was not a good outcome.

The short report made a few assumptions which were completely logical and used statistics picked up from the sustainability report released by Bingo with the Annual Report. The two problems with the assertions were that there was a definitional difference between what Bingo (and its environmental auditor Arcadis) defines as recycled (any waste diverted from landfill) and what the short seller defined as recycled as "….replacing other materials which would otherwise have been used to fulfil a particular function." The other issue is that the volume of waste treated as per the Sustainability Report only related to a subsection of volumes received across Bingo's network, which threw out the calculation for the short report. To be fair, given the information disclosed by Bingo there was logic in these assumptions made by the short report. There were a few other interesting observations brought up in the short report which sent me down plenty of rabbit holes to understand what was going on. By and large, I was ultimately reassured that either the assumptions made in the short report were not right or the materiality of the observation was not enough to change my investment thesis.

Read more about the skills needed to objectively assess short reports or find out more abouts Perpetual's SHARE-PLUS Long-Short Fund.

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