



## Regal Funds Management's Craig Collie tips dim Celltrion reality

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For investors looking for a hedge against rising markets, there's always gains in the downside. But for stock pickers it was offshore rather than local targets to feel the heat of the shorts.

Regal Funds Management portfolio manager Craig Collie tore shreds off one of South Korea's most valuable stocks, Celltrion, a manufacturer of biosimilar drugs — starting with an attack on the very premise of its business, saying, “forget copycats, just buy the real thing”.

He alleges the company's growth has come about by “accounting trickery”, due to earnings being overstated fivefold, and tipped an 80 per cent fall in the share price, now trading at 226,000 Korean won, equivalent to about \$275 a share.

“Most companies simply sell products to their customers, Celltrion, however, stuffs its subsidiary Celltrion Healthcare with product so much that there is now 3½ years of inventory in its coffers,” he said.

“We think 90 per cent of those margins go down to the bottom line — but their most recent earnings are a sign that stakeholders are starting to pay attention.”

Doubts over management quality were also high on Mr Collie's concerns, with several of the company's top executives reportedly linked to the collapse of Daewoo Motors in 1999.

“It's a doozy,” he said, pointing out Celltrion founder Seo Jung-jin was a former top executive at Daewoo and board member Kim Woo-Choong, the former Daewoo chair, was sentenced to jail by a Korean court for embezzlement and accounting fraud in 2006.

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All of that was amplified by the dominance of retail investors on the Korean stockmarket who instead of information follow management holdings as a sign of company confidence.

In a similar multi-blow attack, Montaka Global Access Fund portfolio manager Chris Demasi swung out against US food giant maker Campbell's Soup.

“This short isn't just a pare or a hedge but an absolutely money-making idea,” he said, detailing how the brand was no longer relevant with consumers.

“We used to go to the middle aisles of the shopping centre to buy food but today we're shopping differently — fresher, healthier and with brands that engage ... through social media.

“Everything that was once a tailwind for Campbell's is now a headwind.” Campbell's is currently in the process of selling its Australian unit, Arnott's Biscuits.

Mr Demasi said the company, trading at \$US39 on the New York Stock Exchange, had fallen behind in research and development while its management sat on their hands. The soup-maker is currently fighting an attack from rebel investor Third Point to spill the board, but with two descendants of the original Campbell's family holding more than 40 per cent of the stock, he said that would make for a messy battle.

While interest rates were low in the US, he said the stock had become a bond proxy and it had inflated its valuation, and an uptick in rates made it less attractive.

“At these levels, investors are getting equity-like risk but with bond returns,” Mr Demasi said.

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