

PALOS

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Palos Weekly Commentary

Issue No. 11 | MARCH 14 2019

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Palos Funds

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K-Bro Is Executing on the Plan

K-Bro Linen Inc. (TSX: KBL) owns and operates laundry and linen processing facilities in Canada. On March 14th, 2019, KBL announced its 2018 fourth quarter results. The company's 4Q revenue came in at \$59.4 million. They benefited from their strategic acquisition in late 2018 and from organic growth. However, as expected, margins continued to be challenged in Q4 as KBL continued to upgrade their Vancouver and Toronto facilities. It's important to note that this was the first quarter of margin improvement from 9.4% to 11.1%, but far from their 2015 level.

The transition to the new refurbished facilities and the new facilities in Vancouver took longer and incurred higher costs. I now see this era of capital projects as being behind them. Not to say that there is still tremendous amount of work ahead of them as they consolidate volume from existing facilities. According to management, the company should be able to attain 2015 margin by the 4th quarter of 2019.

With the growing topline and margin expansion in the coming quarters, I see KBL as a very compelling investment. As they reach their goals, I'm also expecting dividend increases by year-end.

Disclaimer: Palos Funds are shareholders of KBL.

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) ¹	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.71	10.36%
Palos Equity Income Fund - RRSP	PAL101	\$5.82	8.85%
Palos Merchant Fund L.P. (Dec 31, 2018) ²	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.91	11.76%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019)	PAL300	\$10.44	4.41%
S&P TSX Composite (Total Return with dividends reinvested)			13.34%
S&P 500 (Total Return with dividends reinvested)			12.61%
S&P TSX Venture (Total Return with dividends reinvested)			12.08%
Chart 2: Market Data ¹			Value
US Government 10-Year			2.62%
Canadian Government 10-Year			1.77%
Crude Oil Spot			US \$58.26
Gold Spot			US \$1,309.30
US Gov't10-Year/Moody BAA Corp. Spread			226 bps
USD/CAD Exchange Rate Spot			US \$0.7518

¹ Period ending Mar 13, 2019. Data extracted from Bloomberg

² Fund is priced annually

³ Fund is priced weekly on Tuesdays

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