

Mossberg's Investor Digest

Best Idea Profile:

BGC Parnters, Inc. (NASDAQ:BGCP)

DESCRIPTION:

BGC Partners, Inc. is a global brokerage company that services the wholesale financial and real estate markets. It was formed in 2004 when Cantor Fitzgerald separated out its voice brokerage business, initially listing on Nasdaq in 2008. Its products include fixed income securities, interest rate swaps, foreign exchange, equities, credit derivatives, commercial real estate, commodities, and futures. Its services include trade execution, broker-dealer services, clearing, processing and other back-office services. BGC customers are banks, broker-dealers, investment banks, trading firms, hedge funds, governments, corporations, real estate owners and developers and investment firms. Based in New York, BGC employs approximately 2,500 brokers and salespeople and 6,500 people overall in worldwide locations.

KEY INVESTMENT CONSIDERATIONS:

Betting on Management – Management is heavily invested in the business, which is a good indicator for investors. Employees, executives and directors own 39% of the company.

Impressive Sale of Asset –BGC Partners recently sold its U.S. Treasury eSpeed technology unit to NASDAQ OMX for more than the entire market cap of the company; a sale that was advantageous to the company and puts them in good position going forward financially and strategically. The stock responded appropriately by shooting up almost 50% at the time of the announcement. Yet, the remaining technology-based business in the Financial Services unit represents nearly half of the technology-based revenues and is growing faster than other businesses. Its compound annual growth rate was 27%, registering 11% year-over-year growth in the first quarter.

Savvy Investors – BGC Partners has a strong record of successful and accretive acquisitions. Since 2005 it has acquired at least ten financial services companies, and acquired four real estate companies in the last few years in a contrarian climate. The eSpeed sale arms the company with the ability to seek additional acquisitions. Management indicates other use of these proceeds could include the repurchase of units or common stock, or the repayment of debt.

Growth in Electronic Trading – BGC Partners is focusing on businesses that are growing. For example,

in the first quarter of 2013, 105 out of 210 trading desks offered fully electronic trading. That compares with 40 trading desks in the first quarter of 2010 and 20 in 2008. Other key drivers of the company's Financial Services growth include the elimination of less profitable brokers, lower industry volumes and volatility, and regulatory uncertainty in the U.S. It is expected that electronic trading percentages will continue to grow.

Real Estate Benefits from Cross-Functional Connections – BGC has very strong financial services industry connections. This benefits the Real Estate Services unit because the financial services industry is the largest user of leased space and is, by far, the most prolific buyer and seller of real estate. Despite the fact that the first quarter is seasonally the slowest in real estate, Real Estate Services revenue was up almost 139% year over year. Management is optimistic about continued growth because the commercial real estate market is in the early part of its recovery.

Strong and Stable Dividend – The stock is returning 8% in dividend yield. Management recently stated its intent to continue at a 12 cent quarterly dividend for the foreseeable future.

VALUATION:

Growth of the company's markets justify buying this stock despite run-up following eSpeed announcement.

BGC Partners, Inc. (NASDAQ:BGCP) Investment Data (as of 7/22/13)

Recent Price	\$6.44
52-Week Range	\$3.11 - \$6.50
Fiscal Year End	Dec
Dividend	\$0.48
Yield	7.5%
Shares Outstanding	168 M
Average Trading Volume (3 mos)	1.5 M
Market Capitalization	\$1.1 B
Cash	\$374 M
Long-term Debt	\$447 M
Enterprise Value (EV)	\$1.2 B
Book Value	\$1.99
TTM Revenue	\$1.8 B
P/ Revenue	0.6x
TTM EPS	\$0.15
P/ EPS	43.3x
TTM EBITDA	N/A
EV/ EBITDA	N/A

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