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Interview #105 : John Khabbaz (Phoenician Capital)

Global value investing

Capital Employed

Jan 9 · Paid

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Welcome to Capital Employed!

For this issue we have the pleasure of interviewing John Khabbaz from Phoenician Capital.

Hi John, thanks so much for taking the time out to do this interview.

Can you please tell readers about your background, and how you got involved in business and investing?

My journey into business started with an entrepreneurial leap right after college. I founded a t-shirt manufacturing company, which I built and scaled over the course of a decade.

That experience was my crash course in the realities of business—mastering sales, operations, logistics, and, most importantly, the resilience it takes to build something from the ground up.

Despite the company's success, I realized my passion didn't lie in textiles. So, I sold the business and pursued an MBA at Columbia Business School—a decision that ultimately changed the trajectory of my career.

At Columbia, I discovered value investing, and it felt like a revelation. The idea of buying businesses at a discount to their intrinsic value—the "margin of safety" concept—struck me as both rational and deeply aligned with my principles.

It's a disciplined approach that minimizes downside risk while unlocking long-term potential. What captivated me even more was the patience it requires: trusting that markets, over time, correct mispricings and reward those who invest thoughtfully and deliberately.

Value investing isn't just a strategy; it's a philosophy rooted in prudence, patience, and rationality.

While it might underperform during certain cycles, history has shown that its principles can endure and have the potential for generating outsized returns over the long run. This alignment of discipline and long-term thinking made value investing not just a career choice but a lifelong passion.

You're one of a rare breed of investors who has actually operated a non-investing business.

What lessons and experiences did you gain from being an entrepreneur that have helped you be a successful investor?

Absolutely. My time as an entrepreneur was transformative, and it continues to shape my approach to investing in profound ways.

Running a textile manufacturing business taught me lessons that go far beyond spreadsheets and balance sheets—it immersed me in the realities of company culture, human motivations, and the critical importance of aligning incentives. These insights are invaluable when assessing potential investments, as they reveal what truly drives sustainable success.

At Phoenician Capital, we don't just analyze companies from the outside; we strive to understand their operational DNA—their revenue drivers, cost structures, and resource allocation strategies.

My entrepreneurial background gave me a front-row seat to the art and science of capital allocation, a discipline I regard as the foundation of any great business.

Knowing where and when to deploy resources to create long-term value is a skill I honed as an operator and now leverage as an investor.

Perhaps most importantly, entrepreneurship instilled in me resilience and a long-term mindset. Building a business requires grit, patience, and the ability to navigate uncertainty—traits that are just as essential in investing.

Value investing, after all, is not merely about spotting undervalued companies; it's about having the courage to hold on during market turbulence and the creativity to transform obstacles into opportunities. These lessons from my entrepreneurial journey are at the heart of how we invest today.

And after selling this business, why did you decide to become an investor in public companies instead of founding or perhaps acquiring another private business?

That's an excellent question. Transitioning to public market investing was a carefully considered choice. While private businesses offer control and hands-on management, they come with significant constraints—limited liquidity, high concentration risk, and often a narrower scope for diversification.

Public markets, on the other hand, unlock an expansive playing field with opportunities spanning industries, geographies, and economic cycles.

What appealed to me was the intellectual rigor of public market investing. The availability of vast datasets allows for deep, data-driven analysis to uncover undervalued companies that others might overlook. It's like a treasure hunt—finding hidden opportunities through strategic research and insights.

Public investing also provides a unique advantage: the ability to scale and compound capital globally while maintaining the flexibility and liquidity that private markets simply can't offer.

It felt like the perfect way to combine the strategic discipline of private equity with the agility and breadth of public markets—a fusion that enables long-term growth and innovation on a global scale.

What type of companies, or situations, does Phoenician Capital like to invest in?

At Phoenician Capital, we specialize in building a highly liquid and diversified portfolio of global companies, spanning both developed and emerging markets.

We focus on regions with strong investor protections and legal frameworks, ensuring a solid foundation for our investments.

Our approach prioritizes founder-led businesses that stand out with distinctive models, exceptional unit economics, and clear, scalable growth trajectories.

Many of these companies are underfollowed by analysts and overlooked by the broader market, allowing us to identify opportunities and invest in them at compelling valuations.

We are deliberate in our sector focus, investing across nine of the eleven market sectors while avoiding energy and utilities due to their cyclical volatility.

In healthcare, we steer clear of biotech, given its binary outcomes and elevated risk of capital loss. This disciplined exclusion of high-risk segments allows us to focus on companies with sustainable growth potential.

Ultimately, our strategy is designed to identify and invest in high-growth, high-quality businesses with the ability to generate outsized long-term returns, leveraging our deep research and global perspective to uncover hidden gems.

How do you discover these companies?

Our discovery process combines rigorous screening with deep, original research to identify high-quality companies poised for growth and long-term value creation.

Qualitative Analysis:

• We focus on global public companies with market capitalizations between $250 million and $5 billion, targeting scalable and diversified business models.

• We evaluate management's track record, insider ownership, and shareholder alignment to ensure a commitment to value creation.

• Market positioning, competitive advantages, and revenue-generation potential are key considerations.

Quantitative Analysis:

• A 10+ year financial review highlights historical performance and capital allocation efficiency.

• Revenue sustainability, expense dynamics, and scalability are scrutinized on the income statement.

• Balance sheets are assessed for liquidity, debt management, and long-term obligations.

• Growing free cash flow is a critical indicator of strong capital allocation and future value creation.

This comprehensive approach ensures we uncover companies with the potential to deliver superior shareholder returns.

Once you find a company that interests you, what does your research process look like?

Our research process is both rigorous and multifaceted, designed to uncover the true value and long-term potential of a company.

It begins with a deep dive into fundamental analysis, evaluating areas such as the company's product or service offering, market dynamics, competitive positioning, and financial health.

This is complemented by an assessment of critical factors like margin of safety, cyclicality, corporate culture, and potential catalysts that could unlock value.

Following this initial phase, we take our analysis a step further by directly engaging with company leadership. Through in-depth conversations, on-site visits, and management calls, we focus on key topics such as strategic vision, capital allocation priorities, competitive differentiators, and risk mitigation strategies.

These interactions not only provide us with invaluable insights into the quality of leadership and decision-making but also help us validate our research assumptions.

By combining quantitative analysis with qualitative engagement, our due diligence ensures we have a comprehensive understanding of the business.

This disciplined approach allows us to identify companies with sustainable competitive advantages and strong potential for long-term value creation, while also mitigating risks effectively.

Are there any industries or countries you find interesting now?

India and Africa are among the most compelling markets right now, driven by transformative growth factors and untapped potential.

Both regions are home to young, fast-growing populations and a rapidly expanding middle class, fueling increased consumption and higher demand for goods, services, and technology. Urbanization is reshaping their economies, unlocking opportunities in sectors like consumer goods, financial services, healthcare, and renewable energy.

What makes these markets even more intriguing is their thriving tech ecosystems. India's position as a global technology hub is solidifying, with innovations in fintech, e-commerce, and AI, while Africa's dynamic startup scene is solving critical challenges in energy, agriculture, and financial inclusion with cutting-edge solutions.

Despite their immense promise, India and Africa remain underrepresented in global investment portfolios. For investors willing to take a closer look, these markets offer a rare combination of growth, innovation, and resilience—making them prime destinations for long-term value creation.

Can you talk about two specific companies in your portfolio you're really bullish on? What was the thesis for investing?

At Phoenician Capital, we focus on uncovering high-potential opportunities that the market has yet to fully appreciate.

Two standout companies in our portfolio exemplify this ethos: Globus Spirits Limited and ASA International Group PLC. Both offer compelling growth stories, robust fundamentals, and significant upside potential.

💡 **Globus Spirits Limited (NSEI: GLOBUSSPR)**

Globus Spirits, a New Delhi-based alcohol producer, is uniquely positioned at the crossroads of rising consumer incomes and India's ethanol blending policies.

The company produces a range of products, from value-priced Indian-made liquor to premium single-malt whiskies and ready-to-drink beverages. Its leadership—a visionary father-son team—has fostered a culture of innovation and execution, which we witnessed firsthand during extensive due diligence in November.

Globus is now capitalizing on an exciting premiumization trend. Its recent launches in the single-malt and ready-to-drink segments have been well-received, creating a pathway to expand market share in India's evolving alcohol

industry. Adding to its appeal, its ethanol division offers a stable revenue stream tied to government policy initiatives.

Despite its strong fundamentals, Globus remains attractively undervalued. The company trades at just 7x EV/EBITDA (FY24), with a projected IRR exceeding 20%, signaling a highly favorable risk-reward dynamic.

We believe this disconnect between intrinsic value and market perception won't last long, particularly as Globus executes on its growth strategy.

💡 **ASA International Group PLC (LSE: ASAI)**

ASA International represents one of the most undervalued and scalable growth opportunities we've encountered in years.

A London-listed microfinance institution operating in 13 African countries, ASA empowers over 2.4 million self-employed women entrepreneurs through small loans. Its disciplined branch expansion strategy, where each branch achieves breakeven in 9–16 months, reflects exceptional operational efficiency.

What truly sets ASA apart is its geographic diversification and lending performance, which are best-in-class across its markets. This diversification mitigates country-specific risks and fortifies the company's resilience.

Financially, ASA's trajectory is remarkable: in H1 2024, the company achieved 16% loan portfolio growth and an extraordinary 267% increase in net profit year-over-year.

ASA is also embracing digital transformation, rolling out online banking initiatives in Ghana and Tanzania to meet Africa's rising demand for digital financial services.

Yet despite these achievements, ASA trades at just 1x book value and 5x projected 2024 earnings, presenting a significant valuation gap that we believe is ripe for correction.

In Summary, both Globus Spirits and ASA International embody the qualities we seek in our investments: visionary leadership, clear growth drivers, and substantial upside potential overlooked by the market.

These companies not only align with our investment philosophy but also position our portfolio for outsized returns as their stories gain broader recognition.

Thanks John for a great interview.

Readers can find more information about Phoenician Capital by visiting phoeniciancapital.com

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