

# QV Equities Investor Update

March & April 2017



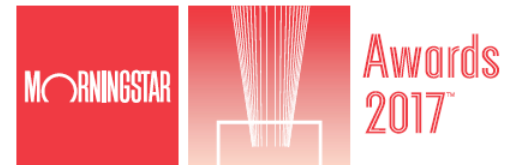
**IML** INVESTORS  
MUTUAL LTD

# QV Equities Limited

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- Listed 22 August 2014
- Managed by Investors Mutual
- Focused on Ex-20 stocks
- Experienced Board with independent majority
- Focus on long-term capital growth & income

- Boutique manager established in 1998
- Disciplined 'true to label' value style
- Large investment team with experienced leadership
- Consistent performance over 18 years
- Over \$7bn FUM - large retail following
- Morningstar Fund Manager of the Year – Small Cap



## Retail investor needs:

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- ☐ Capital preservation
- ☐ Reasonable capital growth
- ☐ Income focused

## Investment Philosophy: focus on quality

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We seek to buy and own:

Companies with a **competitive advantage**,

with **recurring earnings**,

run by **capable management**,

that can **grow**,

.....at a **reasonable price**.

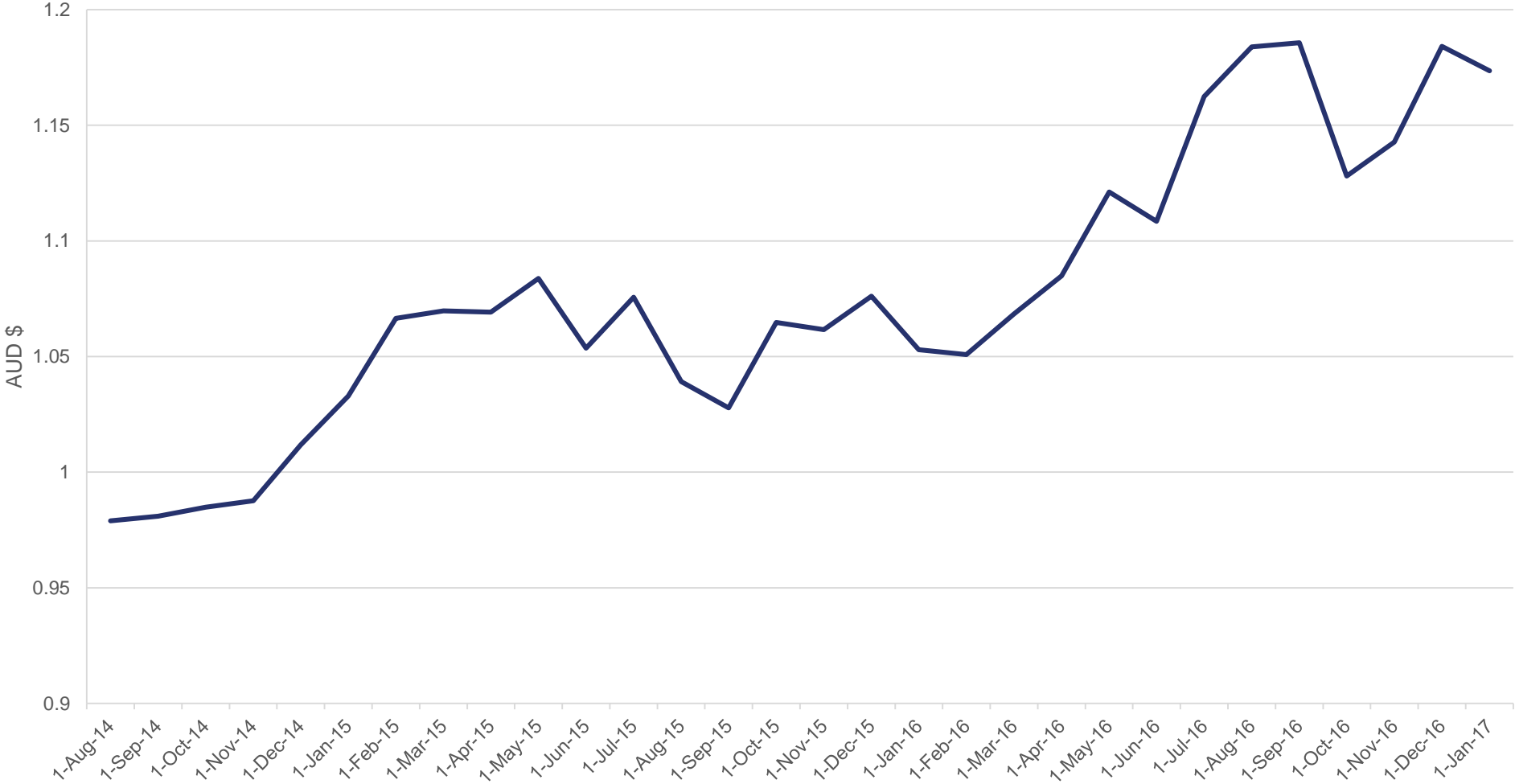
# QVE Performance & NTA – February 2017

NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax cum div	1.1624
NTA after tax cum div	1.1170

PERFORMANCE	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-1.0%	-0.4%	+1.8%
3 Months	+1.7%	+1.6%	+4.9%
6 Months	-0.2%	0.7%	+1.1%
1 Year	+14.0%	+11.7%	+18.4%
Since Inception Total Return p.a	+9.2%	+7.5%	+9.4%

\*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to deferred tax on the un-realised gains in the Company's investment portfolio. The Company is a long term investor and does not intend disposing of its total portfolio. Under current Accounting standards, the Company is required to provide for tax on any gains that might arise on such a theoretical disposal, after utilisation of brought forward losses. QVE goes ex with a 2 cent fully franked dividend on 17 March 2017.

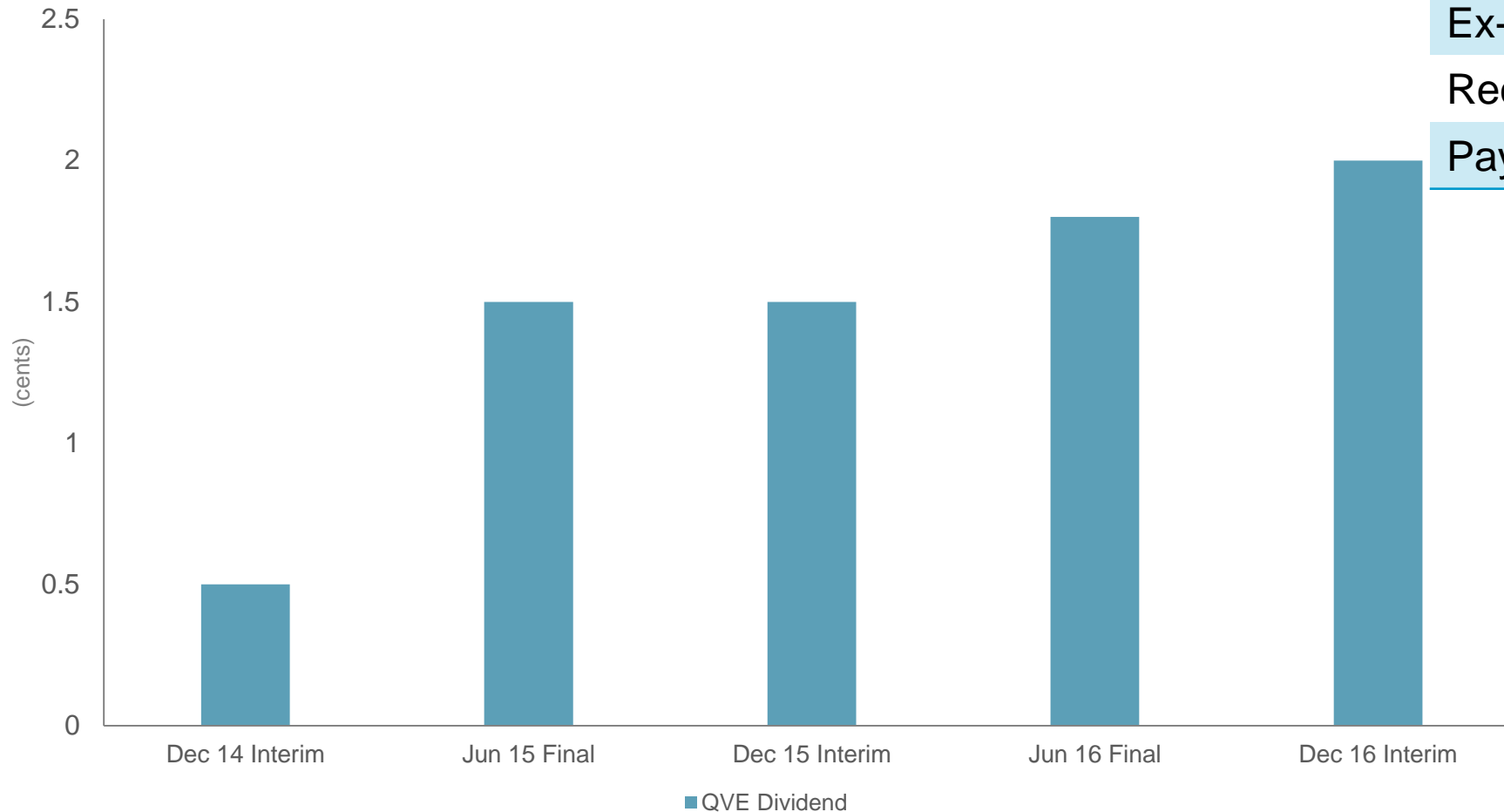
# QVE historical NTA



Since QVE listing, source: IRESS as at 31 January 2017

# QVE dividend history

- Looking to deliver a growing and consistent *fully franked dividend*



Date	
Ex- Dividend	17 March 2017
Record Date	20 March 2017
Payment Date	3 April 2017



## QV Equities – Investment Outlook



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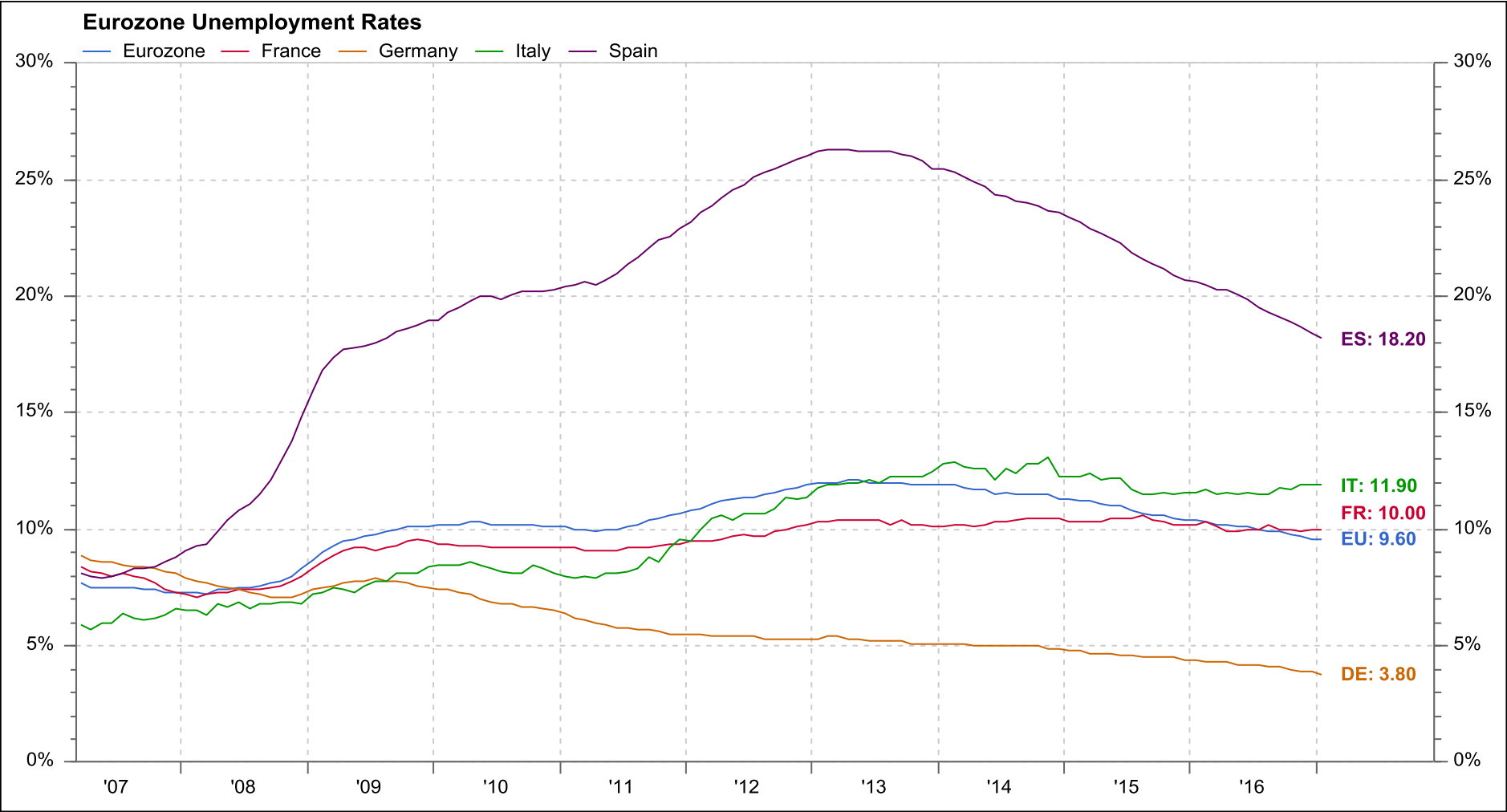
# Where are we today?

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- US economy continuing to expand
- Japan & EU still sluggish
- China dependent on stimulus but slowing from previously unsustainable levels
- Emerging economies recovering
- Interest rates / bond yields ticking higher
- Sharemarkets volatility to return

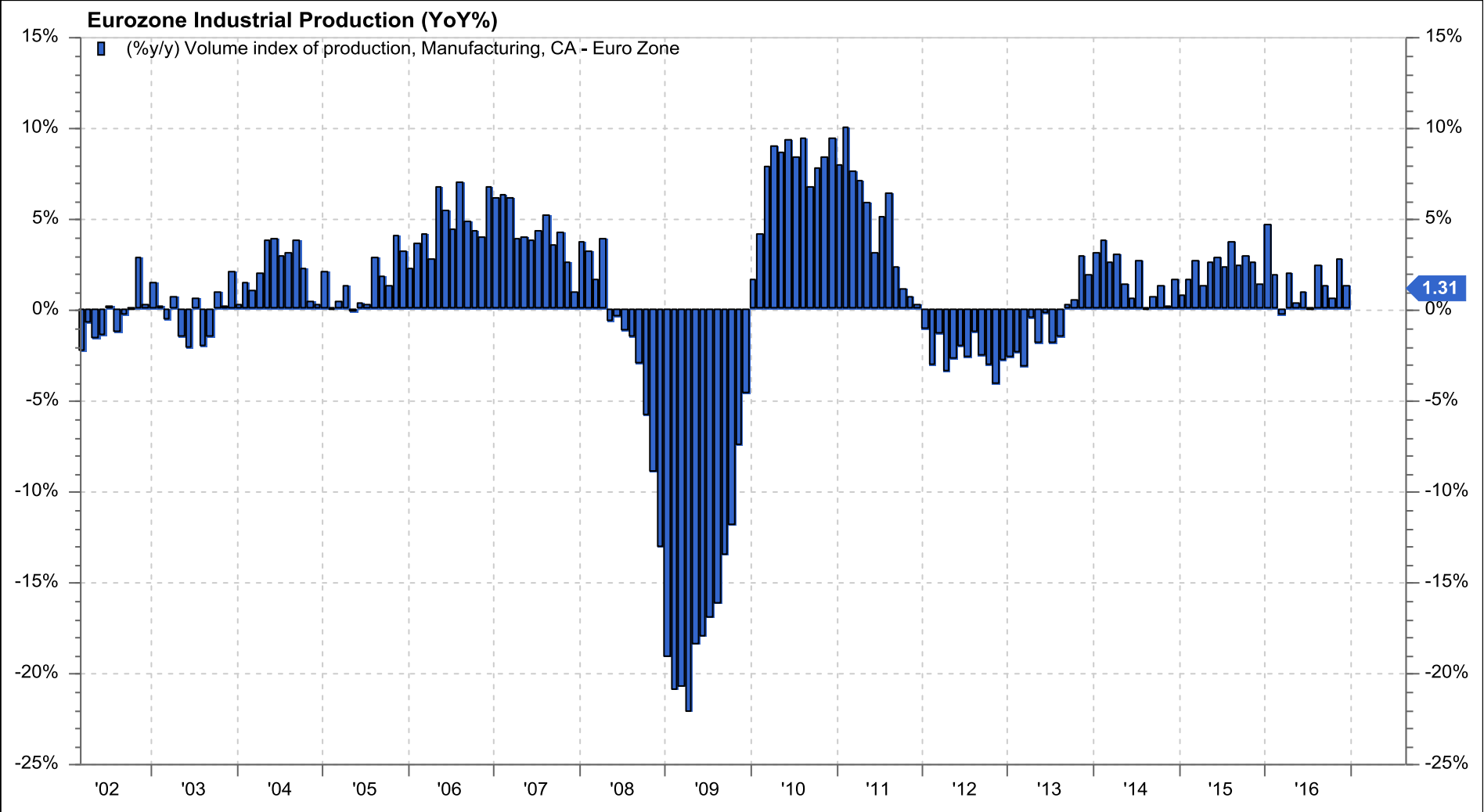
➤ *Active stock selection is key in this environment*

# Eurozone Unemployment easing



Source: Factset as at March 2017

# Eurozone Industrial Production



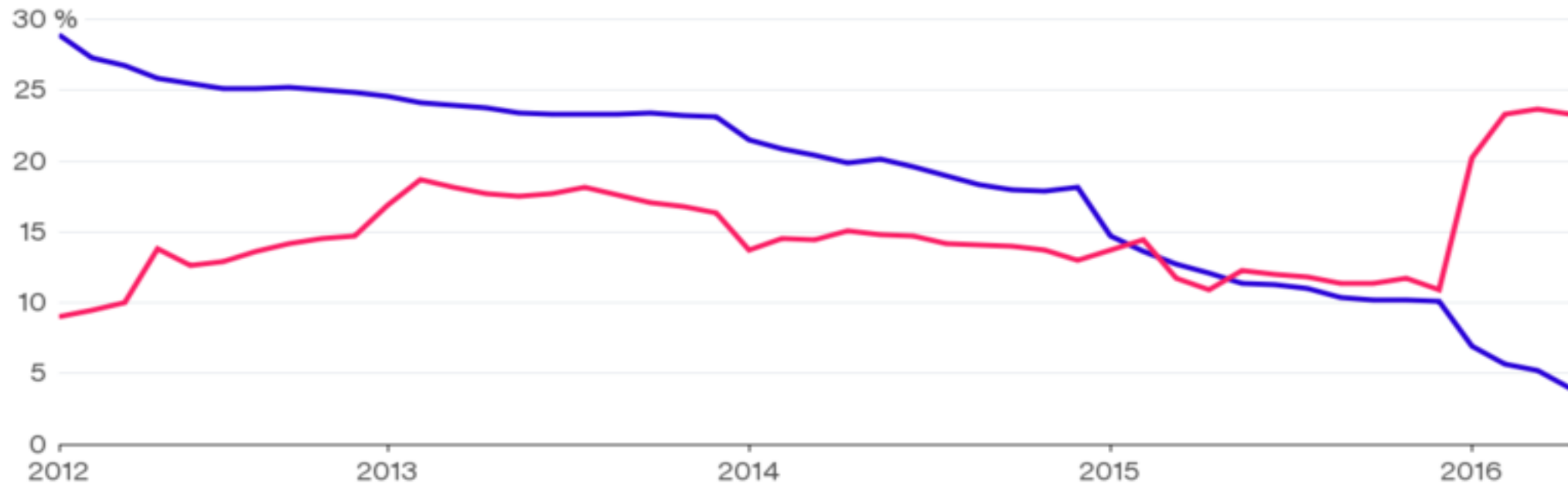
Source: Factset as at March 2017

# Chinese stimulus spending

## China Inc. to the Rescue

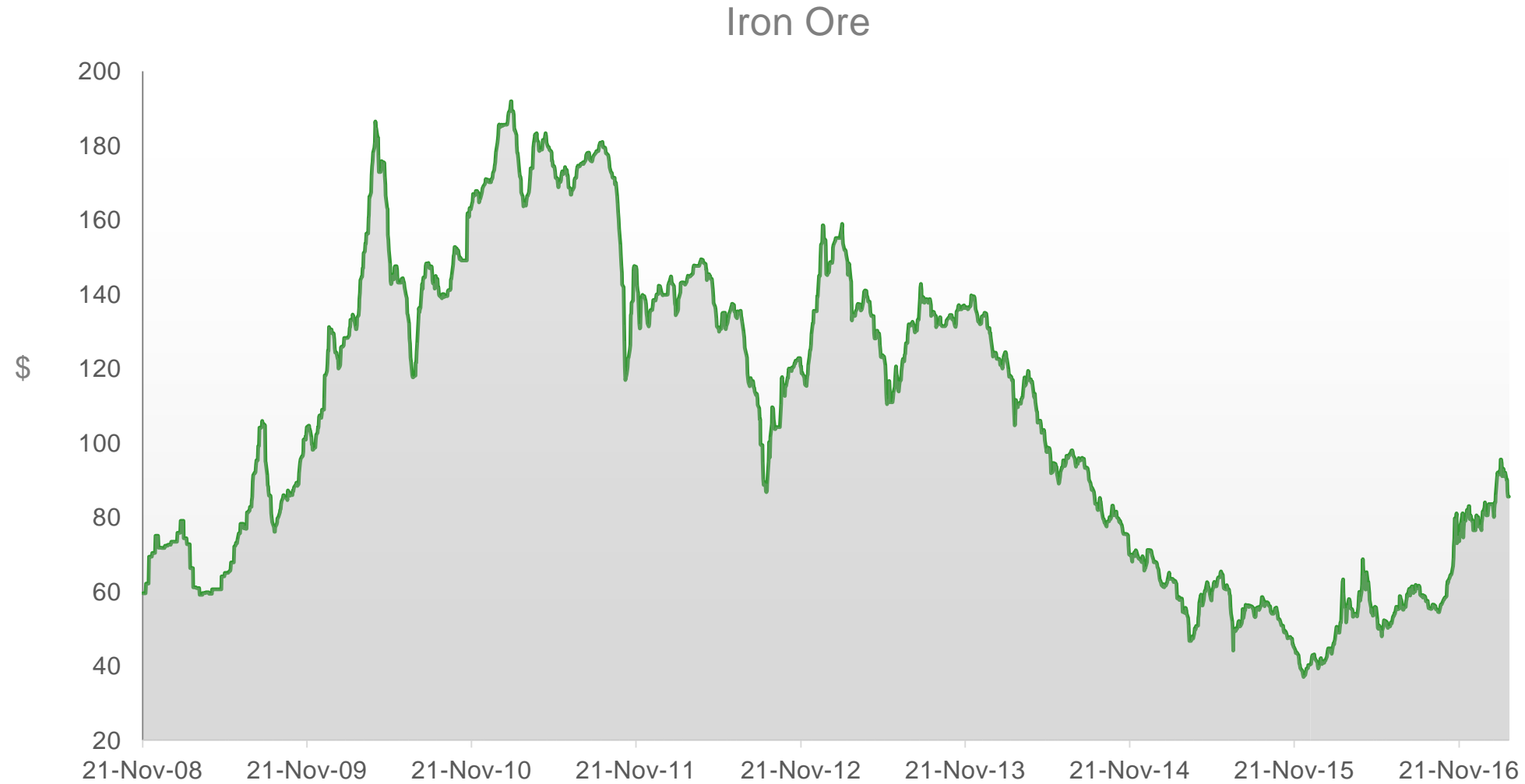
As business investment slides, the state is stepping in to plug the gap

- Private sector investment in fixed assets YTD YoY
- State-owned & state holdings investment in fixed assets YTD YoY



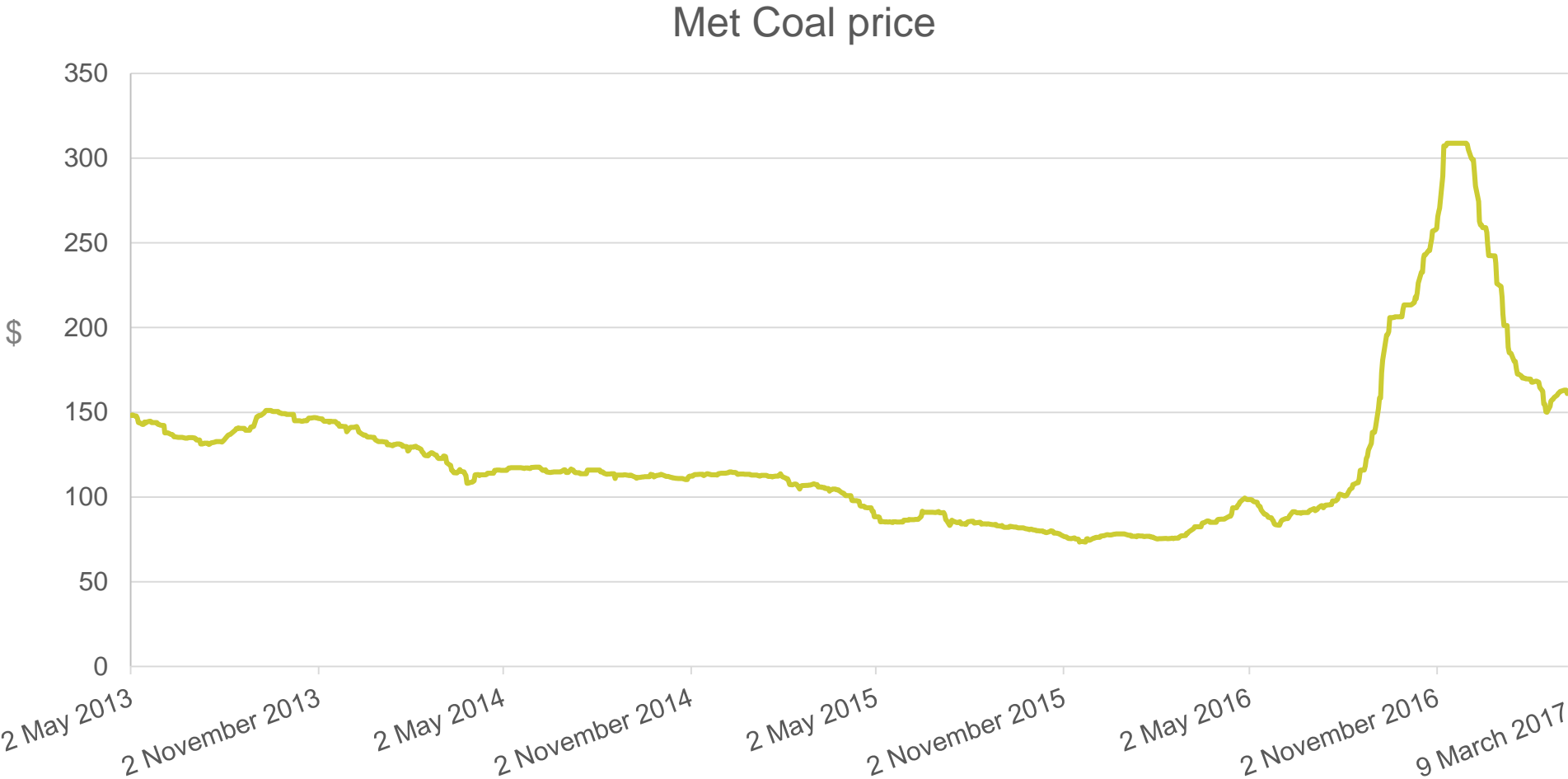
Source: Bloomberg as at June 2016

# Iron Ore



Source: IRESS as at March 2017

# Met Coal price



Source: Bloomberg as at March 2017

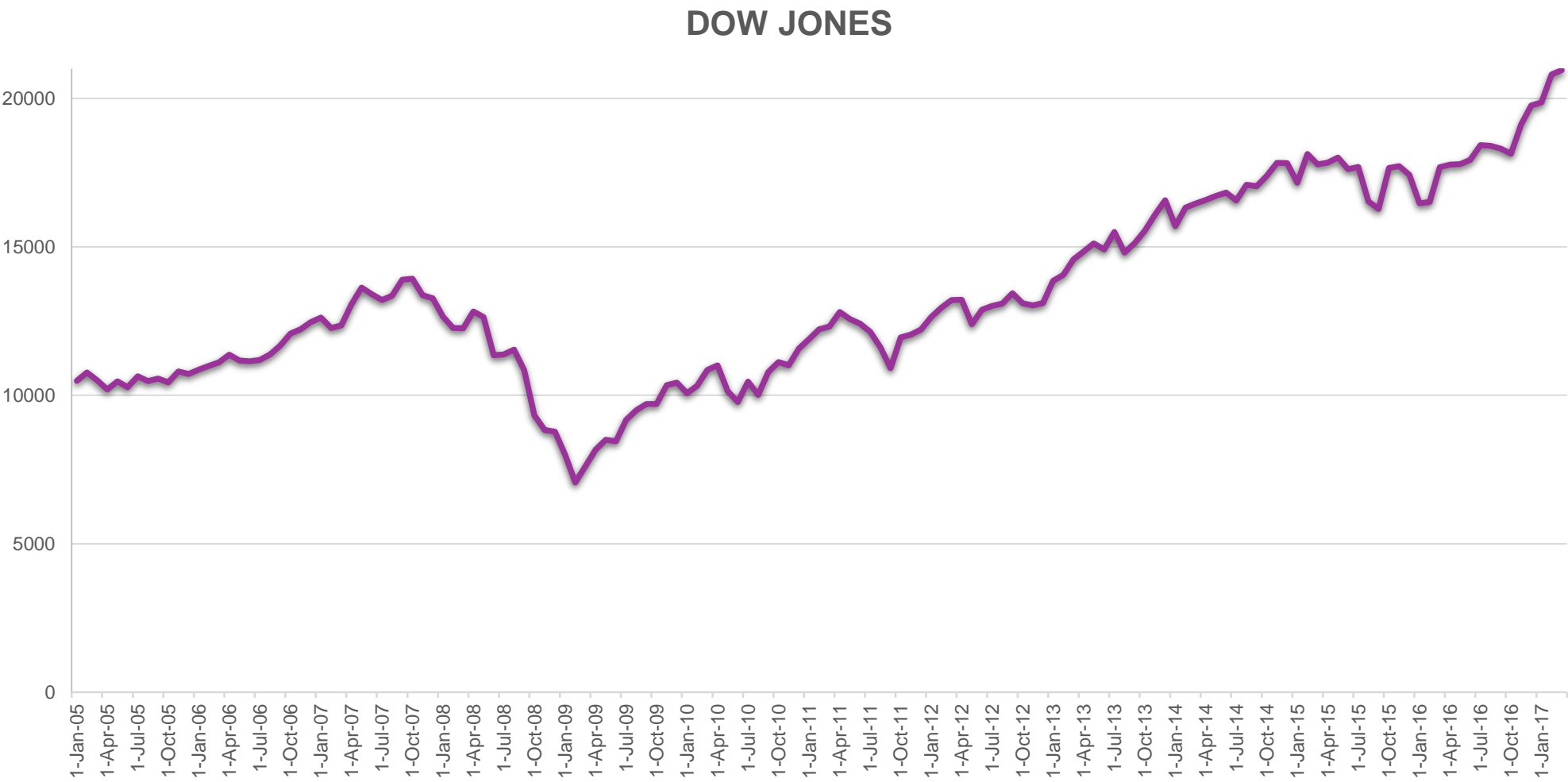
# 'Trumponomics'

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- Corporate tax cuts proposed from 35% to 15%
- Infrastructure spending of \$1trillion USD
- Repeal of Dodd Frank banking legislation
- Protectionist trade policies; renegotiation of NAFTA and repeal of TPP

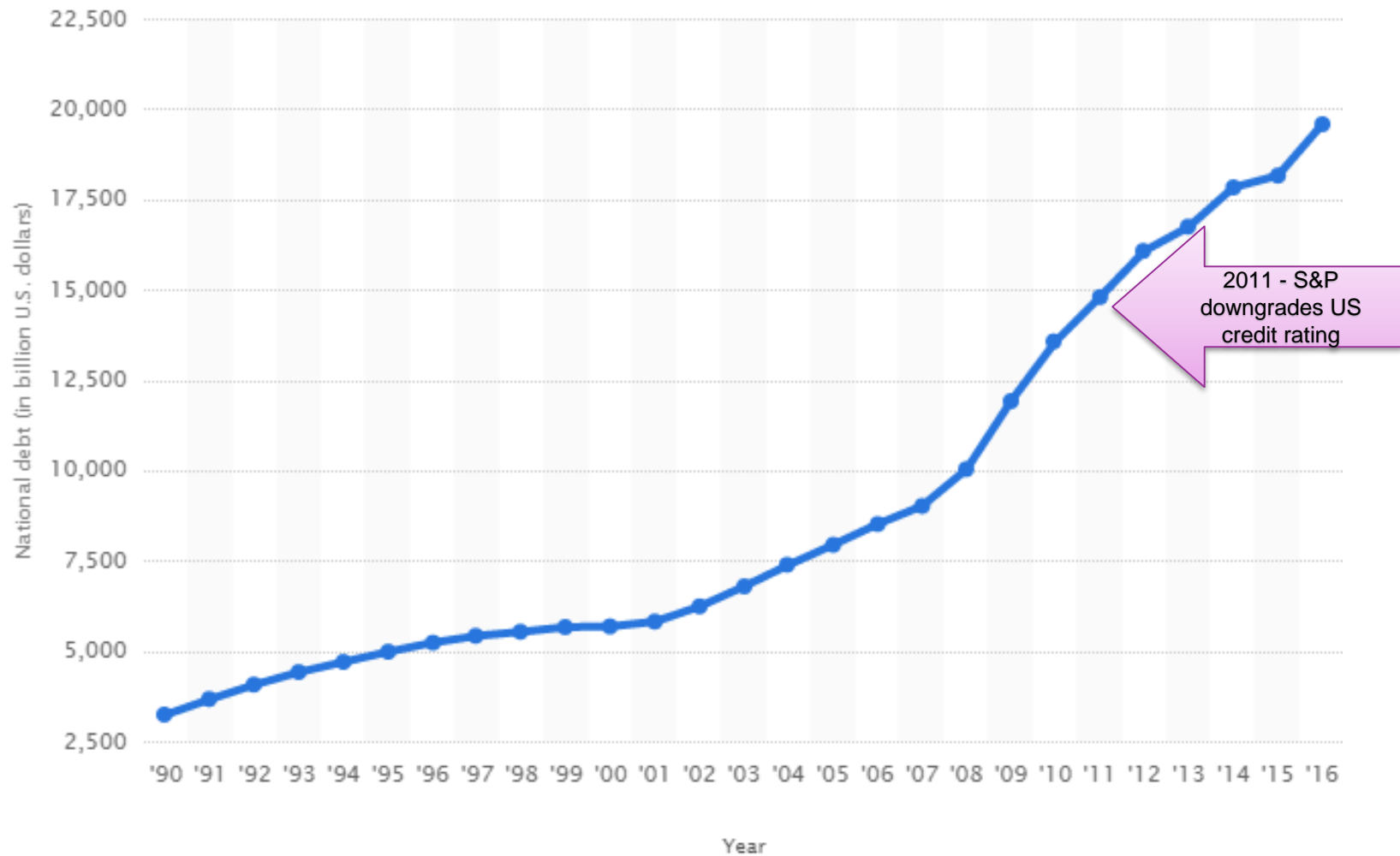


# Dow Jones since 2005

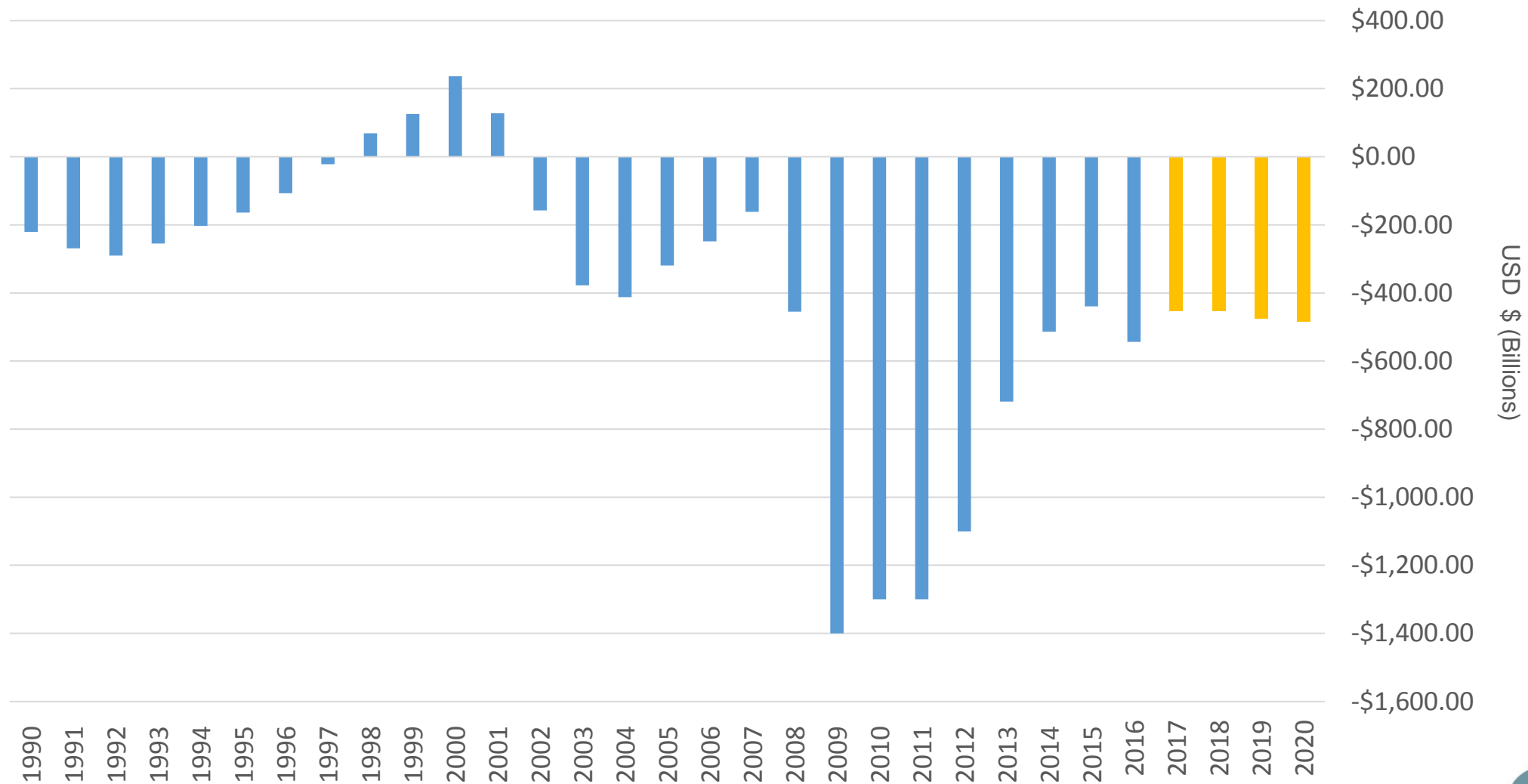


Source: IRESS as at March 2017

# US Public Debt- 1990 to 2016



# US Government Deficits 1990-2016



Source: FRED, as at December 2016

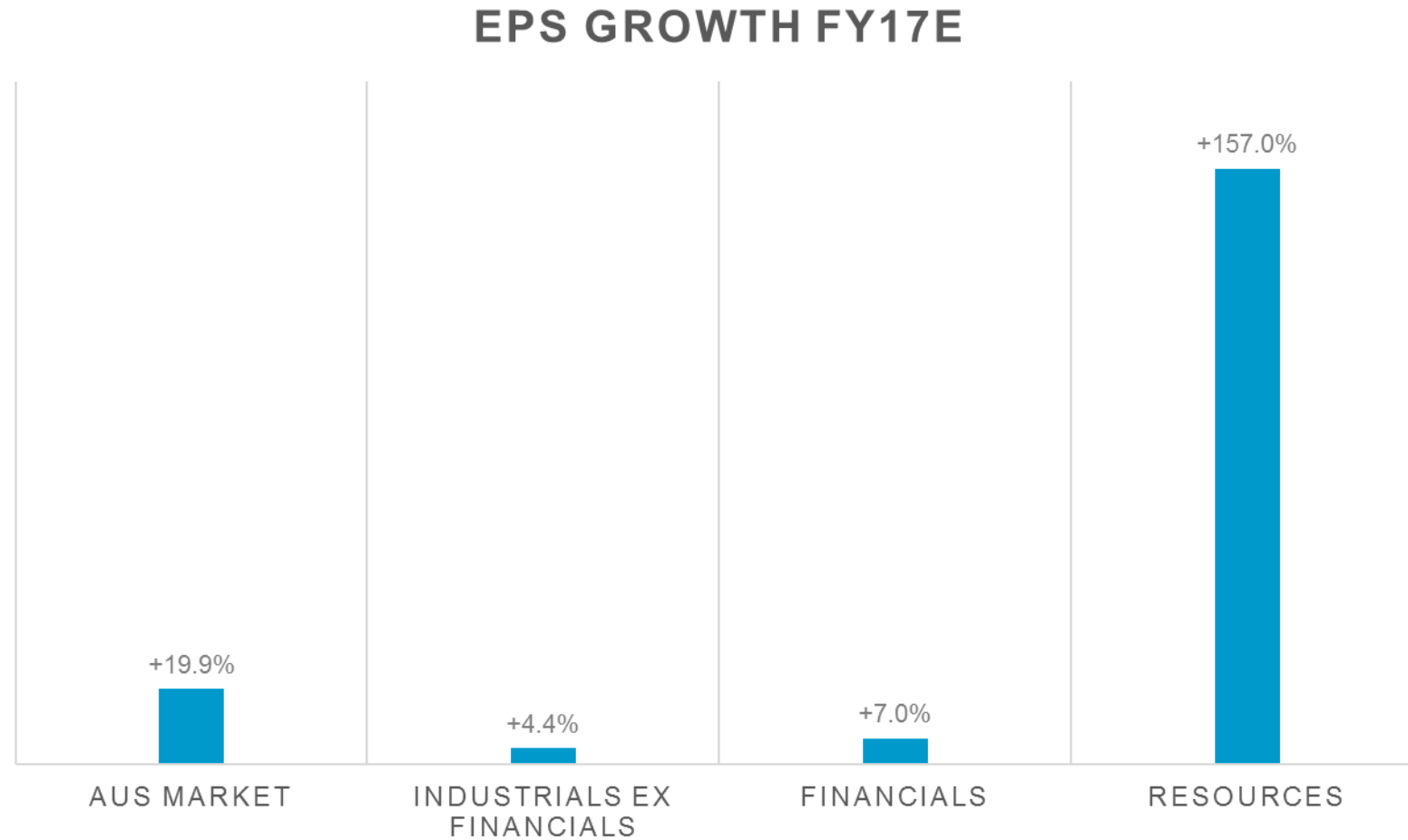
# Market Outlook: where are we today?

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- Earnings environment remains mixed
- Rally on Trump optimism
- Banks & Resource stocks have been strongly rerated
- Stock selection remains key
- Opportunities exist in the Ex 20

# Australian company earnings FY17

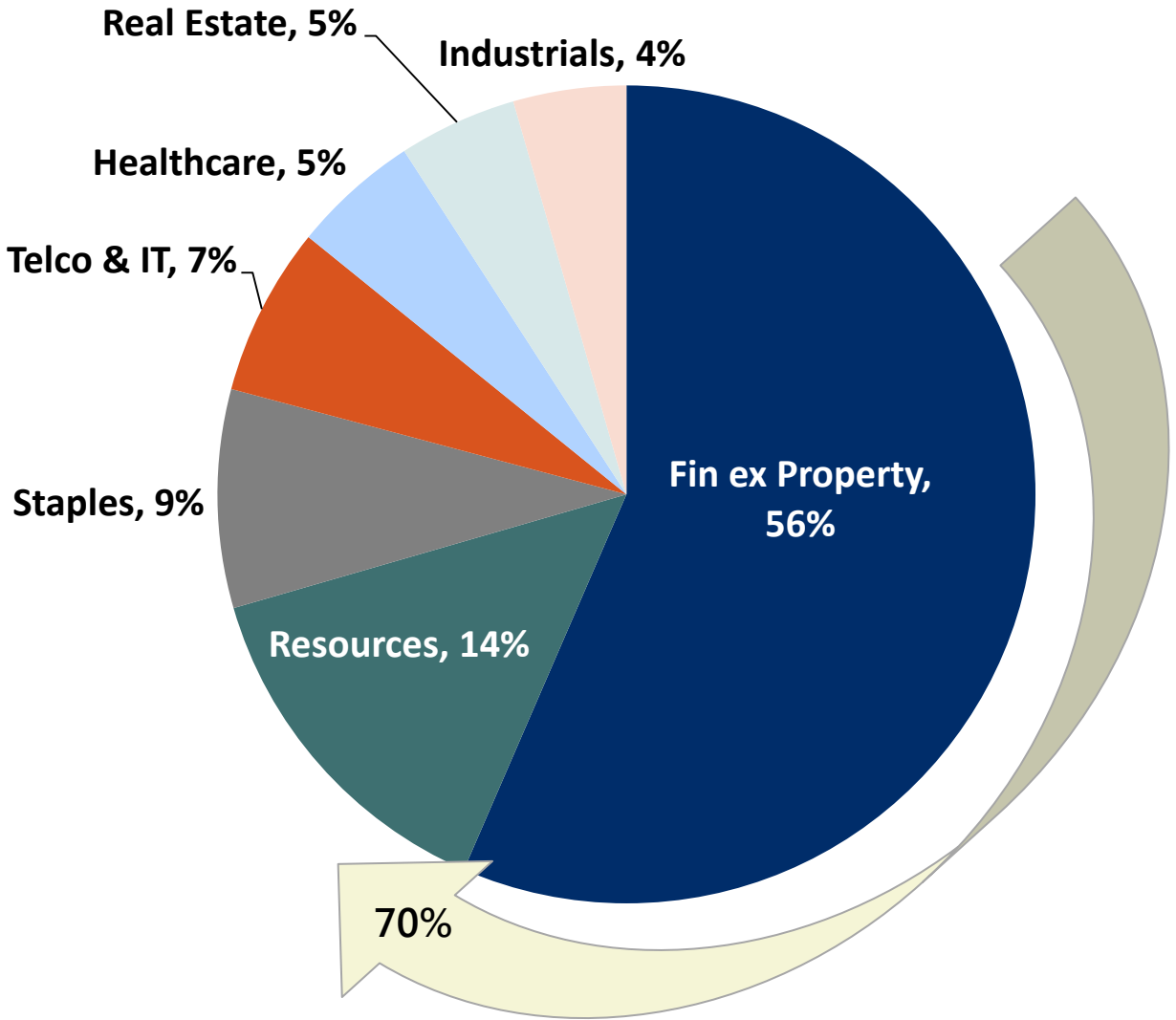
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## Why focus on an Ex 20 managed portfolio?

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- More diverse in terms of industry sectors
- Less researched opportunities
- Investors typically underweight in this segment
- Solid yields on offer
- IML has a long record of significant value add in this segment



## Investment Philosophy: focus on quality

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Companies with a **competitive advantage**,

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# Investor Implications

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- We would be cautious of Banks and Resource shares
  - Earnings growth is patchy
  - Attractive opportunities outside the top 20
- ***Selective companies delivering EPS growth and yield***

# QVE Portfolio Strategy

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- **Quality** industrial stocks
- Companies that can **grow** over time
- Companies with **income** certainty

## Earnings growth that is 'self' generated

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Cost-outs & restructuring→	Cabcharge, Fletcher Building
Acquisitions →	Pact Group
Contracted growth →	Ausnet Spark Infrastructure
Market share gains →	Ansell

## Key stocks –

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KEY EQUITY INVESTMENTS	ASX Code	Weight
Steadfast	SDF	3.7%
Bank of Queensland	BOQ	3.7%
Sonic Healthcare	SHL	3.3%
Ansell	ANN	3.3%
Spark Infrastructure	SKI	3.1%
Pact	PGH	3.1%
Amcor	AMC	3.0%
Orica	ORI	3.0%
Tox Free	TOX	2.8%
Fletcher Building	FBU	2.8%

# QVE Portfolio- 12 month contributors to performance

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- Fletcher Building
- GWA
- Steadfast
- Pinnacle Investments
- Pact Group



**Pinnacle**  
INVESTMENT MANAGEMENT



# QVE Portfolio- disappointing performers past 12months

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- Bank of Queensland
- Integral Diagnostics
- Ruralco
- Flight Centre
- Event Hospitality



**E V E N T**

HOSPITALITY & ENTERTAINMENT



12 months to December 2016



## QVE portfolio activity- Recent buys:

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Recent buys
Ansell
Amcor
Sky City
Spark Infrastructure
Tox Free Solutions
Southern Cross Media
Clydesdale Bank

## QVE portfolio activity- Part profits taken on:

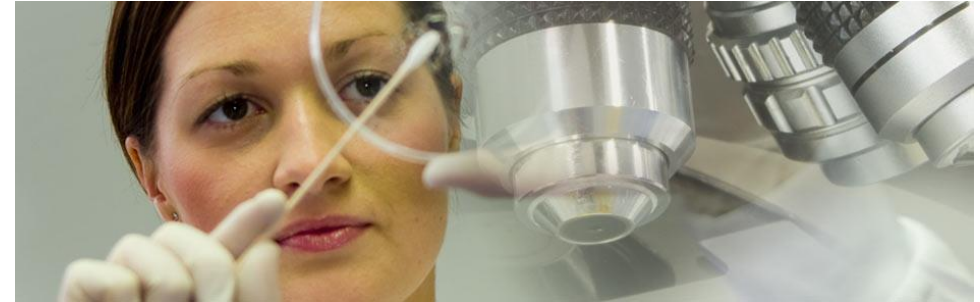
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Part profits taken on:	Sold out of:
Fletcher Building	Orora
AGL Energy	Generation Healthcare
Pinnacle Investments	Viva Energy
GWA	Fantastic Furniture
Steadfast	Asciano
Orica	
Mayne Pharma*	



# Sonic Healthcare (ASX: SHL)

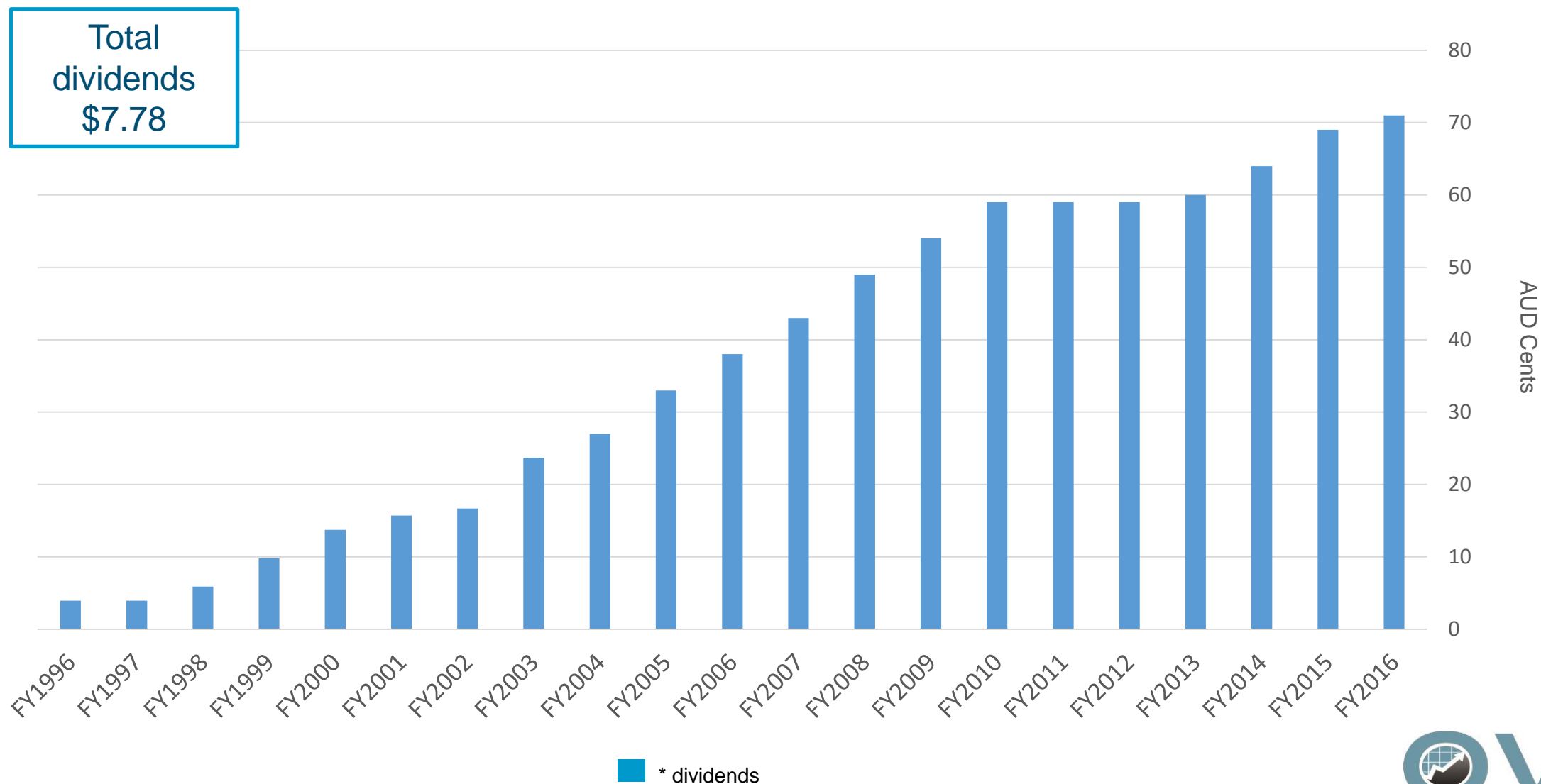
- ❑ Largest pathology player in Australia, Germany & Switzerland and no. 3 in the US.
- ❑ Defensive growing earnings and solid yield
- ❑ Scale advantage provides opportunities for accretive acquisitions
- ❑ Very strong and capable management team
- ❑ Currently trading on FY18 PE of 17.2x & yield of 3.6%



# Sonic Healthcare- dividend history



**SONIC  
HEALTHCARE**  
Quality is in our DNA



Source: Iress March 2017

Total Dividends: sum of dividends paid FY96 to FY16

- ❑ Austereo Radio- leading radio metro network

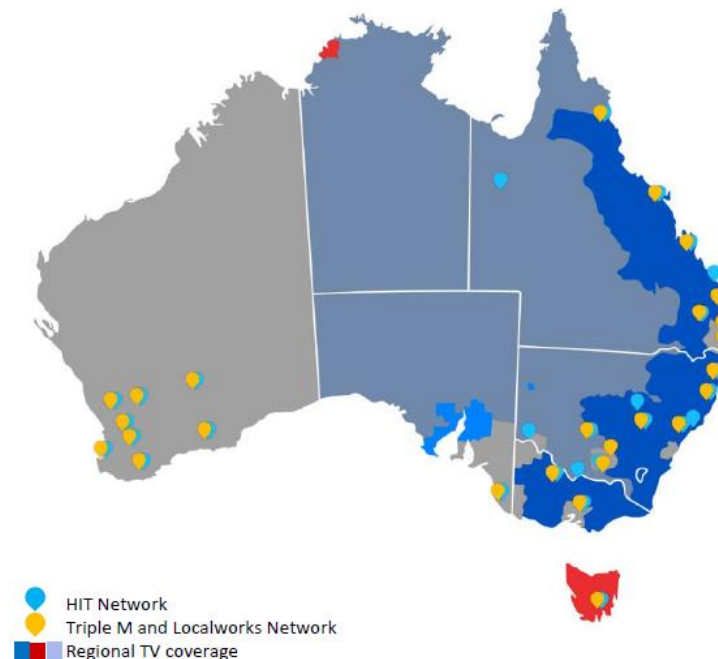
- ❑ Southern Cross- regional radio & TV

- ❑ Renewed Management & Board

- ❑ Improved Balance Sheet

- ❑ PE: 11x Yield: 6.0%

## AUSTRALIA'S BIGGEST ENTERTAINMENT COMPANY



**10** million Australians reached every week

**107** free to air television signals

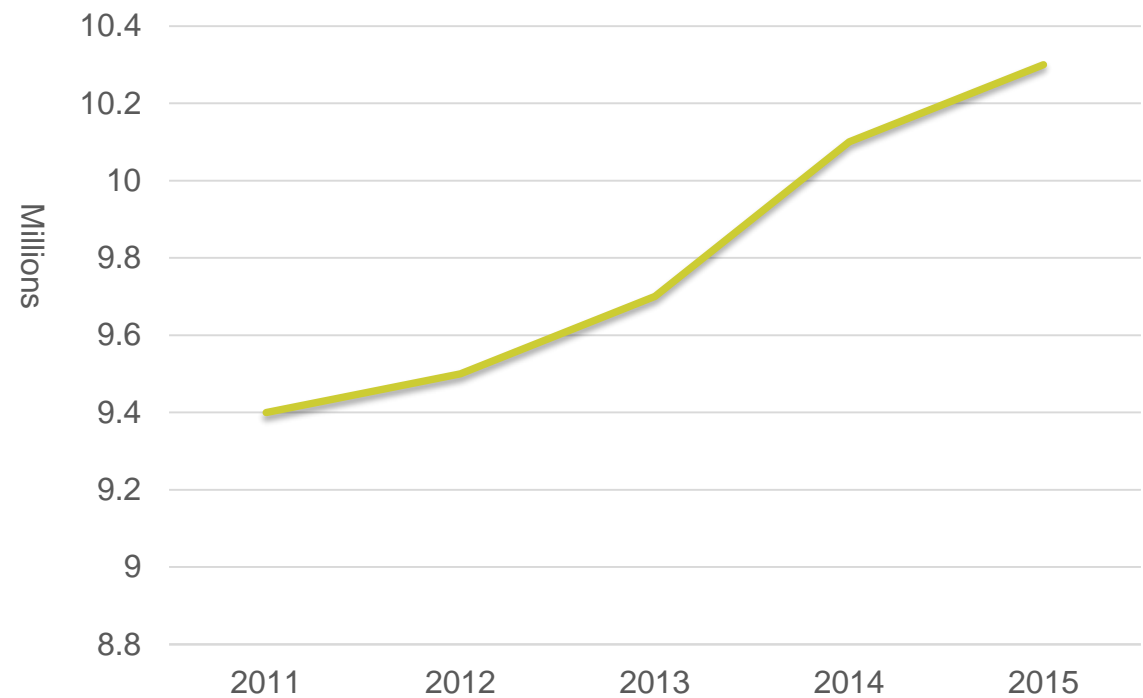
**78** radio stations across the nation

**+** largest DAB+ spectrum owner in capital cities

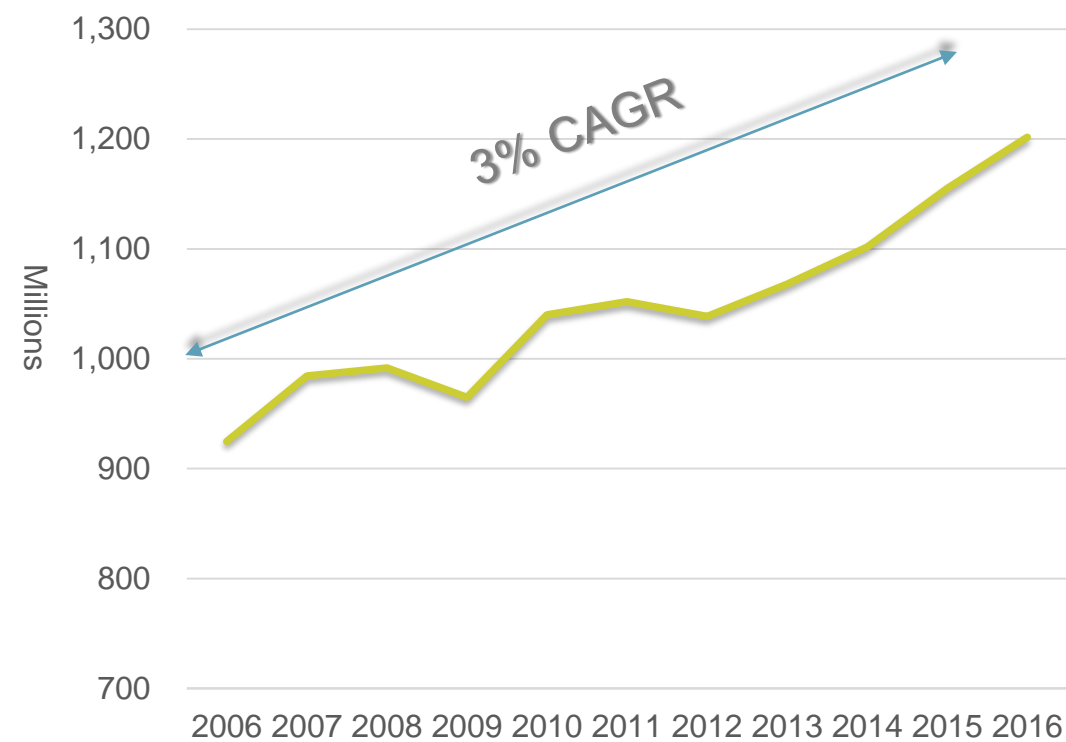
**+** strengthening national and local web, mobile and social assets



### Radio Audience



### Radio advertising



# Event Hospitality & Entertainment

# EVENT

HOSPITALITY & ENTERTAINMENT



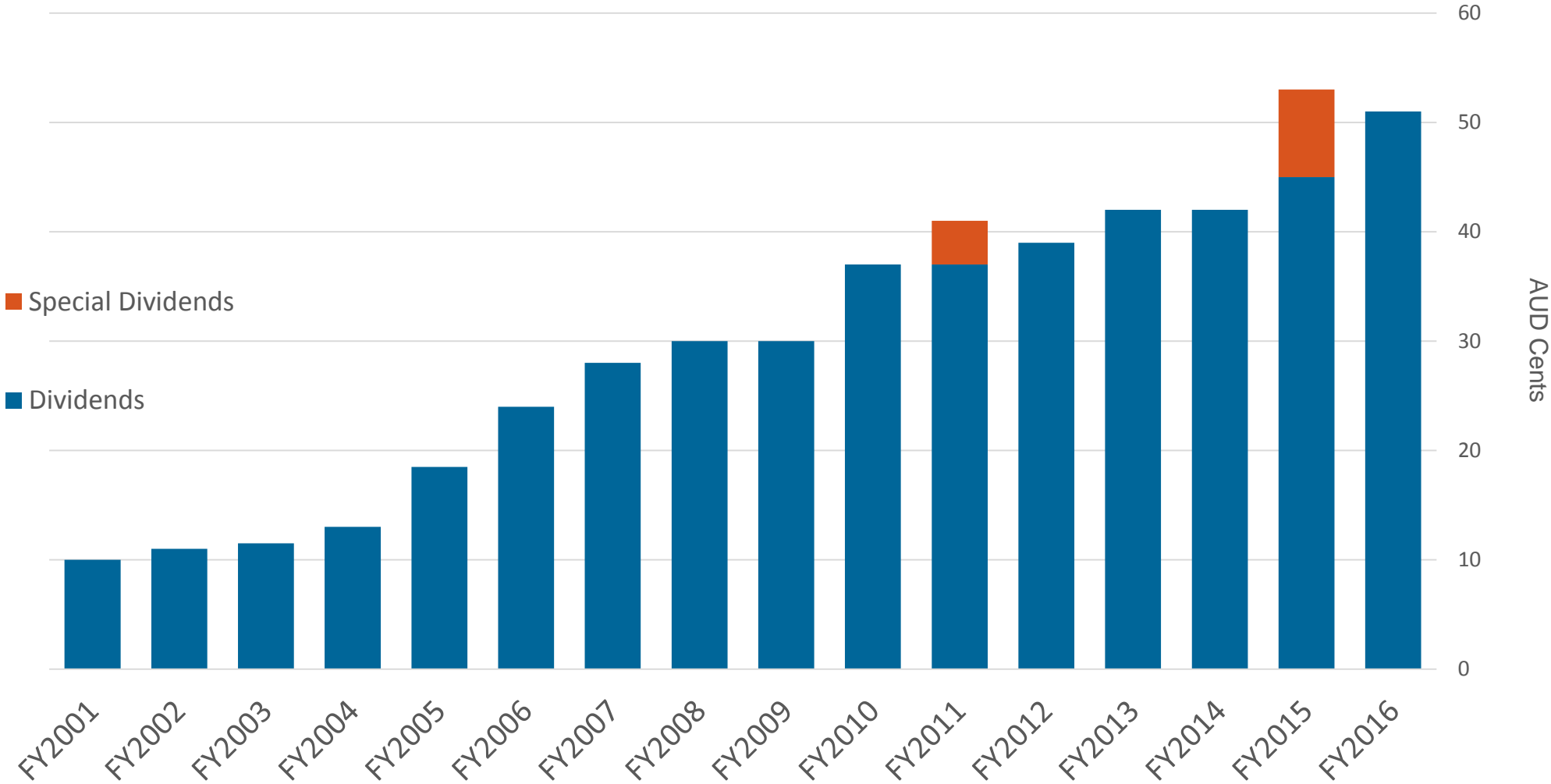
- ❑ Cinema operator with over 1,200 screens in Australia, New Zealand & Germany
- ❑ A leading Australian hotel owner and manager- QT, Rydges & Atura
- ❑ Operates Thredbo ski resort
- ❑ Significant property portfolio with market value of c\$2bn and minimal debt



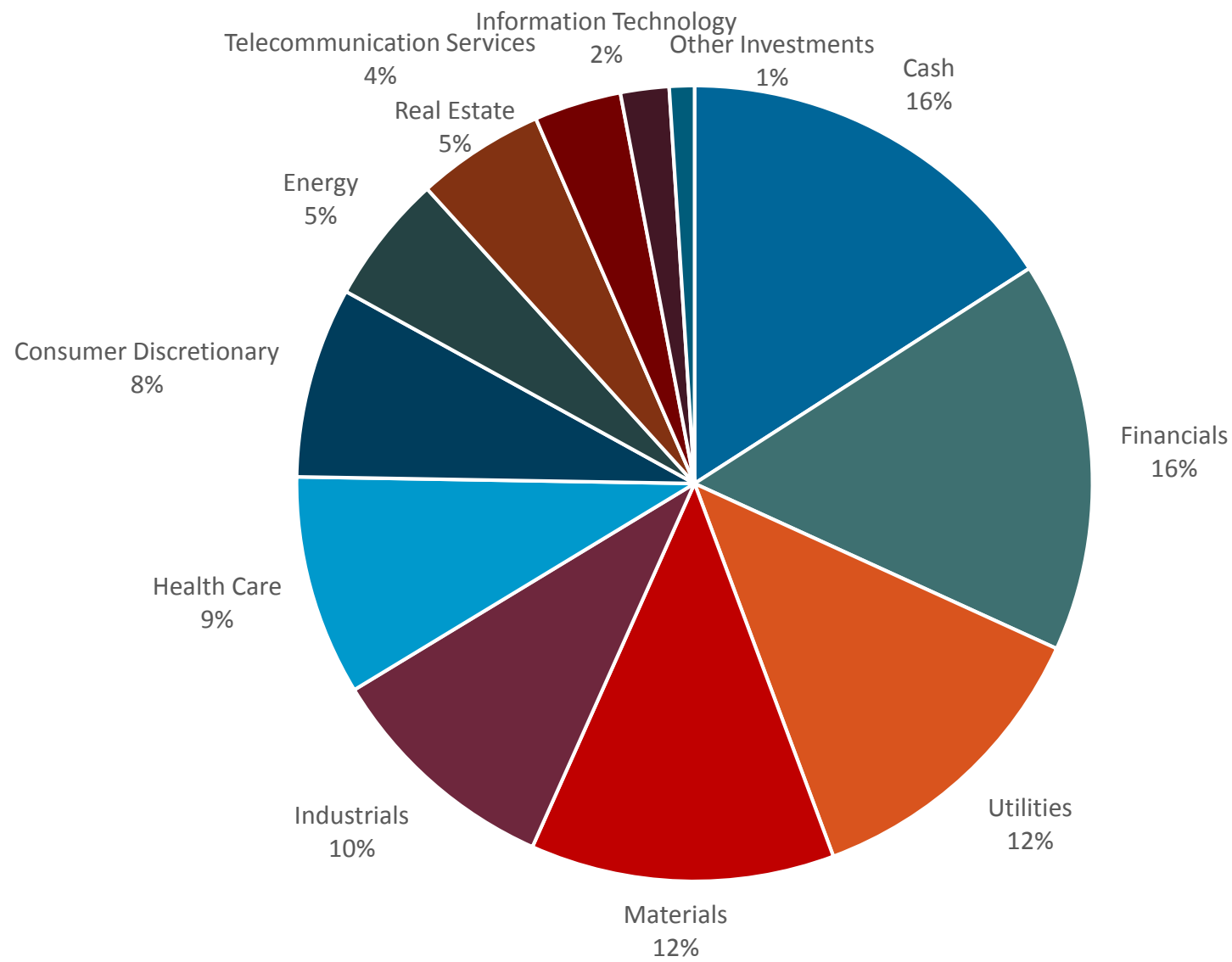
Source: Event Hospitality investor presentation  
IML Estimates



Dividend History



# QVE Portfolio Weights — as at February 2017



## Focus on income certainty

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- Income is going to represent an important part of investors' return
- Focus on companies which can sustain/grow their dividends
- Good opportunities exist in selective Industrials, Utilities and REITs



# The relevance of QVE in client's portfolios

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- More diverse investment opportunity set
- Investors typically underweight in the ex 20 segment
- Less researched opportunities
- Good yields on offer
- IML has a long record of significant value add in this segment....

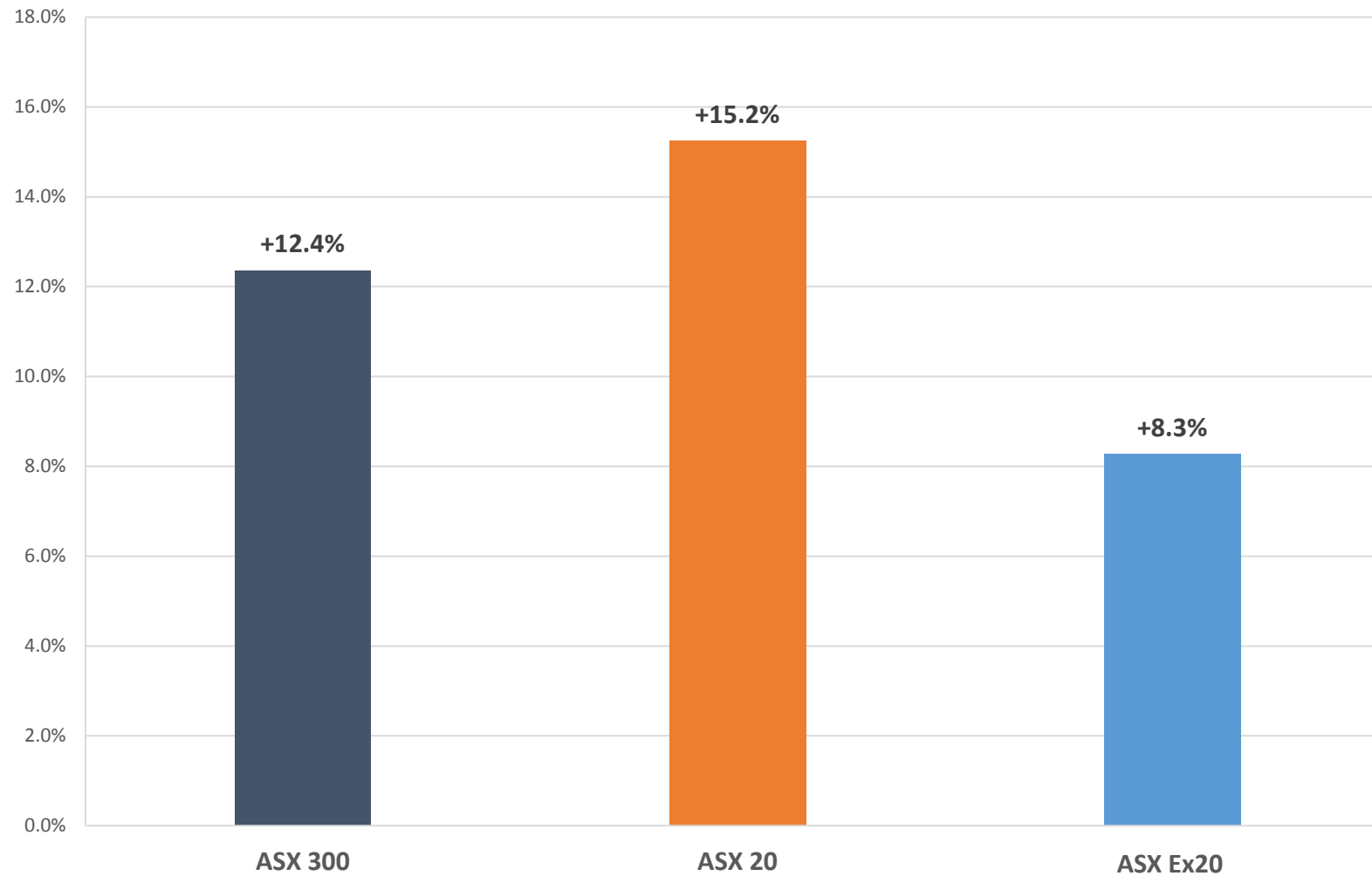
# Market Outlook

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- Volatility expected some time this year
- Major banks look fully valued
- Outlook for the Resource sector remains unpredictable
- Plenty of good quality stocks in the ex 20 sector
- Selective value now appearing in ex 20 Industrials

## Market returns since Trump election 2016: ASX Ex20 lagging top 20 names

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# QVE Capital Raising: Summary

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## QV Equities Limited

### ASX Code

ASX: QVE

### Placement

Successful placement to professional and sophisticated clients

- ☐ Placement issue price: \$1.22 per share
- ☐ Placement raised \$35m
- ☐ Significantly oversubscribed

### Share Purchase Plan

Share Purchase Plan (SPP) to eligible shareholders at the record date

- ☐ Each Shareholder may subscribe for up to: \$15,000 of fully paid ordinary shares
- ☐ SPP issue price: \$1.22 per share
- ☐ SPP to raise up to \$35m (capped)

# QVE Share Purchase Plan: Key Dates

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Key Dates	Activity
<b>1 March</b>	Record Date for SPP
<b>7 March</b>	SPP Open Date and SPP Booklets despatched
<b>24 March</b>	SPP Close Date
<b>7 April</b>	Issue of SPP shares
<b>10 April</b>	Commencement of trading of SPP shares

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