



# Cadence Capital Limited



## AGM and Investor Briefing 21 November 2017



# 2017 Results at a Glance

- Record Profit before tax of \$47.0 million, up 200%.
- Record Profit after tax of \$37.0 million, up 220%.
- EPS of 13.5 cents, up 216%.
- Fund gross performance of 17.2% outperforming the All Ordinaries Accumulation Index by 4.1%.
- This performance was achieved whilst holding on average 21% cash over the past 12 months. (less than market risk).
- 4.0 cents fully franked final dividend.
- Annualised dividend yield of 6.3% fully franked (9.0% grossed-up) based on the share price on the date of the year-end announcement.



# Portfolio Performance

- Stocks that performed well last financial year :
  - Melbourne IT
  - Macquarie Group
  - Samsung Electronics Co
  - Softbank Group
  - Janus Henderson Group
  - Alphabet Inc.
  - Monadelphous Group.
- Stocks that under performed last financial year:
  - Independence Group
  - Retail Food Group
  - Select Harvest Group.
- Cadence derived good performance both domestically and internationally and across different sectors, market capitalisations, and countries.



# YTD Performance

Performance* to 17th November 2017	CDM	All Ords Accum	Outperformance
MTD (Estimate)	3.0%	1.4%	+1.6%
YTD	13.1%	6.6%	+6.5%
1 Year	23.6%	14.3%	+9.3%
3 Years (per annum)	9.3%	9.0%	+0.3%
5 Years (per annum)	10.1%	10.6%	-0.5%
8 Years (per annum)	15.9%	7.6%	+8.3%
10 Years (per annum)	12.5%	3.5%	+9.0%
Since Inception (12.2 years) (per annum)	15.9%	6.7%	+9.2%
Since Inception (12.2 years) (total return)	499.4%	120.4%	+379.0%

\* Gross Performance: before Management and Performance Fees

- Cadence has outperformed the market by 6.5% YTD, 9.3% over past 12 months and 9.2% per annum over past 12.2 years.
- Stocks that have performed well this year: Melbourne IT, Emeco Holdings, Macquarie Group, Samsung, Macmahon Holdings, Monadelphous, Eclipx, Softbank, Estia Health, Metals X Ltd, Facebook Inc.



# CDM Dividend Information

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2007	2.0c	2.0c	2.0c	6.0c	8.6c
2008	2.5c	2.2c*	-	4.7c	5.8c
2009	-	2.0c	-	2.0c	2.9c
2010	2.0c	2.0c	-	4.0c	5.7c
2011	3.0c	3.0c	3.0c	9.0c	12.9c
2012	4.0c	4.0c	4.5c	12.5c	17.8c
2013	5.0c	5.0c	1.0c	11.0c	15.7c
2014	5.0c	5.0c	-	10.0c	14.3c
2015	5.0c	5.0c	1.0c	11.0c	15.7c
2016	5.0c	4.0c	-	9.0c	12.9c
2017	4.0c	4.0c	-	8.0c	11.4c
<b>TOTAL</b>	<b>37.5c</b>	<b>38.2c</b>	<b>11.5c</b>	<b>87.2c</b>	<b>123.7c</b>

\* Off market Equal access buy back

- In September 2017 the fund paid out a fully franked final dividend of 4.0c per share equating to a 6.3% fully franked annualised yield (9.0% grossed-up).
- CDM gives investors fully-franked yield with overseas stock exposure



# Share Purchase Plan (SPP) & Placement

- CDM completed a Share Purchase Plan (SPP) and Placement which raised a combined total of \$50.0 million.
- All eligible shareholders who applied for the SPP received their full allocation of shares.
- The SPP and placement received strong participation with more than 2,100 existing and new shareholders subscribing for shares at a price of \$1.259.
- The SPP and Placement provided Cadence with additional funds to add to both existing and recently identified investment opportunities.
- The Cadence Management team participated in the recent DRP and SPP. They continue to be the largest shareholders in the Company.

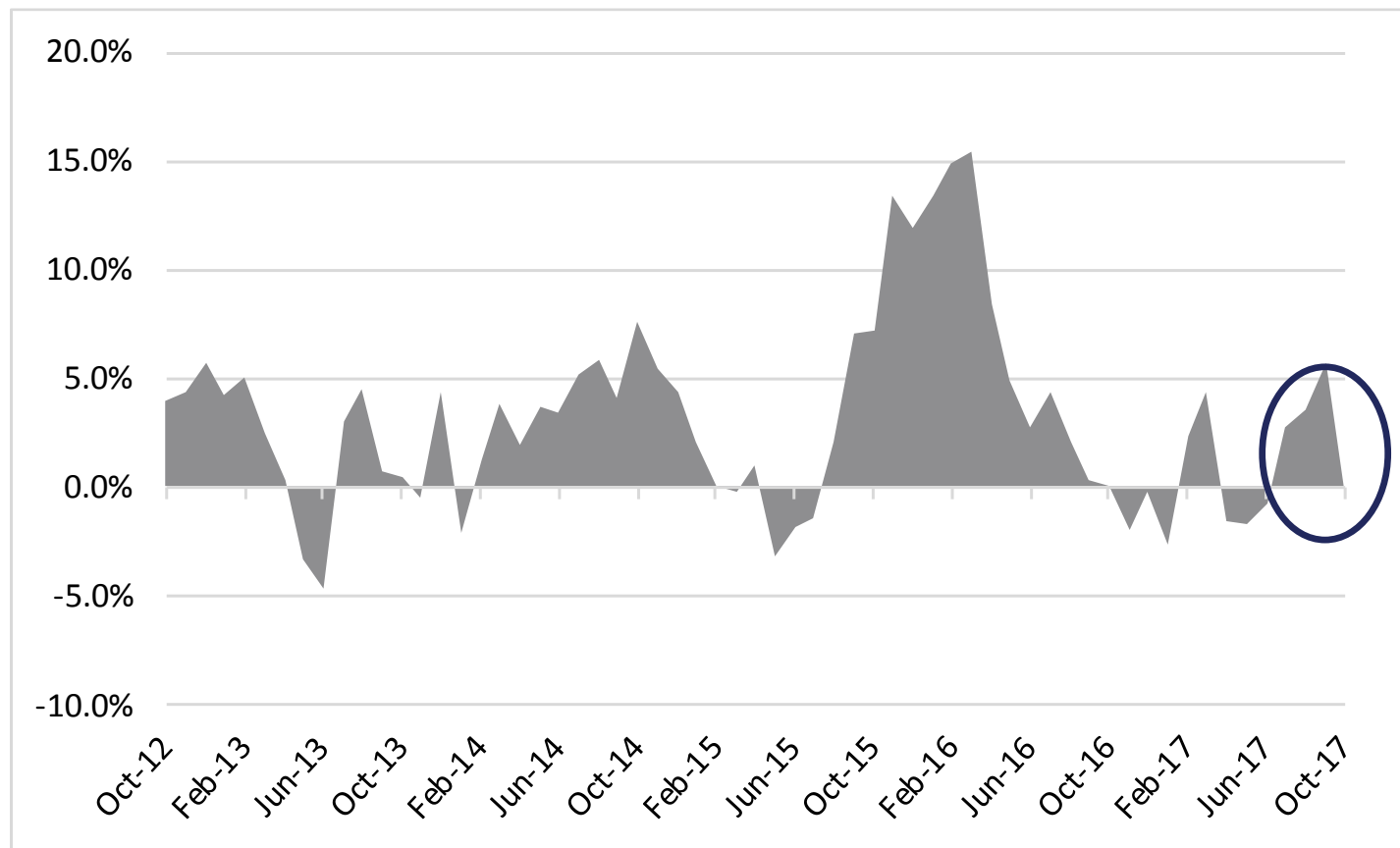


# Top 20 Holdings

Code	Position	Direction	Currency	Holding
MLB	Melbourne IT Ltd	Long	AUD	18.1%
MQG	Macquarie Group Ltd	Long	AUD	11.2%
JHG	Janus Henderson Group Plc	Long	AUD	6.2%
5930 KS	Samsung Electronics Co Ltd	Long	USD	5.6%
9984 JP	Softbank Group Corp	Long	AUD	4.7%
ANZ	Australia and New Zealand Banking Group	Long	AUD	3.8%
NAB	National Australia Bank Ltd	Long	AUD	3.5%
CBA	Commonwealth Bank of Australia	Long	AUD	3.3%
DOW	Downer EDI Ltd	Long	AUD	3.1%
EHL	Emeco Holdings Ltd	Long	AUD	3.1%
ECX	Eclix Group Ltd	Long	AUD	3.0%
AIG US	American International Group	Long	AUD	2.4%
EHE	Estia Health Ltd	Long	AUD	2.4%
DMP	Domino's Pizza Enterprises Ltd	Short	AUD	2.3%
AAD	Ardent Leisure Group	Long	AUD	2.3%
CNI	Centuria Capital Ltd	Long	AUD	2.2%
FB US	Facebook Inc	Long	AUD	2.2%
MAH	Macmahon Holdings Ltd	Long	AUD	2.0%
SHJ	Shine Corporate Ltd	Long	AUD	1.8%
IGO	Independence Group	Long	AUD	1.8%
<b>Top Portfolio Holdings Gross Exposure</b>				<b>84.8%</b>



# Discount and Premium to Post Tax NTA

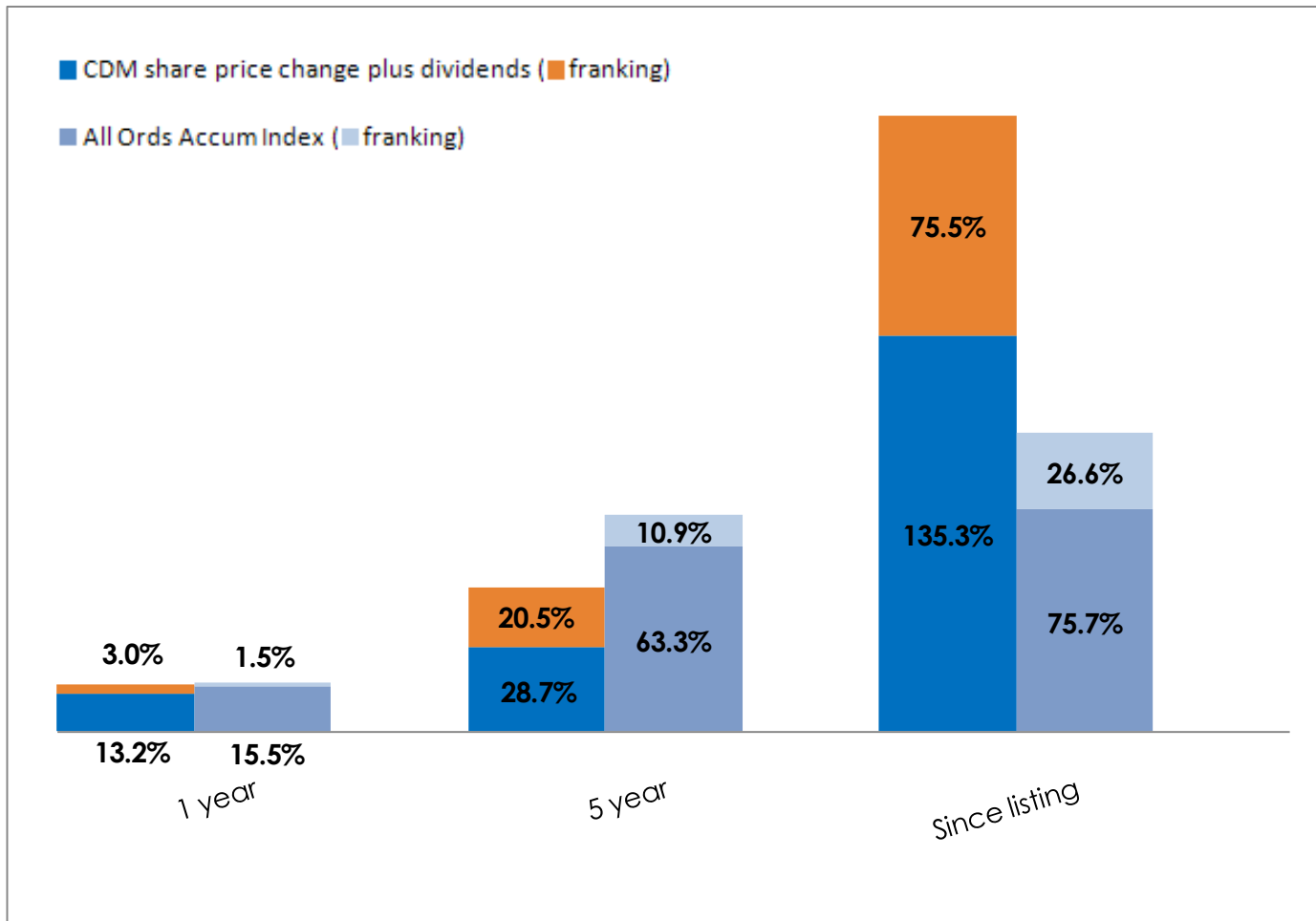


- Some competitor LICs are trading at a 15%-30% premium to NTA





# CDM franking since listing (Oct 2016)





# Melbourne IT Ltd (ASX: MLB)

## Stock Profile

### Long Position

<b>EPS Growth</b>	48%
<b>PE</b>	22x
<b>PEG</b>	0.5
<b>OCF yield</b>	5.7%
<b>FCF yield</b>	4.7%
<b>Cash</b>	\$13M
<b>Debt</b>	\$55M
<b>Market Cap</b>	\$439M

## Fundamental Analysis

- MLB still growing strongly and displaying a good PEG, operating cash flow and free cash flow numbers
- Share price has moved from \$1.11 to \$3.60 and fundamentals still look strong
- MLB is now in the Top 300 ASX stocks by market capitalisation and should be admitted to the index dependent on liquidity
- MLB is starting to 'rerate' and in the medium term, acquisition integration and cross selling benefits should improve earnings further



# Melbourne IT Ltd – Long Position



\* Chart adjusted for 54 cents capital return and 25 cents special dividend



# Macquarie Group Ltd (ASX MQG)

## Stock Profile

### Long Position

<b>EPS Growth</b>	7.5%
<b>PE</b>	15x
<b>PEG</b>	2.0
<b>OCF yield</b>	6.8%
<b>FCF yield</b>	6.2%
<b>Cash</b>	\$13.9B
<b>Debt</b>	\$47B
<b>Market Cap</b>	\$33.8B

## Fundamental Analysis

- MQG share price has moved up from first purchase around \$24 and has since spun off SYD (Sydney Airports)
- MQG dividends have grown significantly and company has implemented a buy back which is a more efficient way of delivering value to shareholders than partially franked dividends
- MQG share price has moved ahead more than earnings growth in recent times as the market has begun to rerate the annuity style earnings
- MQG is one of, if not the largest, infrastructure company of its type in the world and stands to benefit from tax cuts and infrastructure spending in the US



# Macquarie Group Ltd – Long Position





# Samsung Electronics Co Ltd (005930 KS)

## Stock Profile

### Long Position

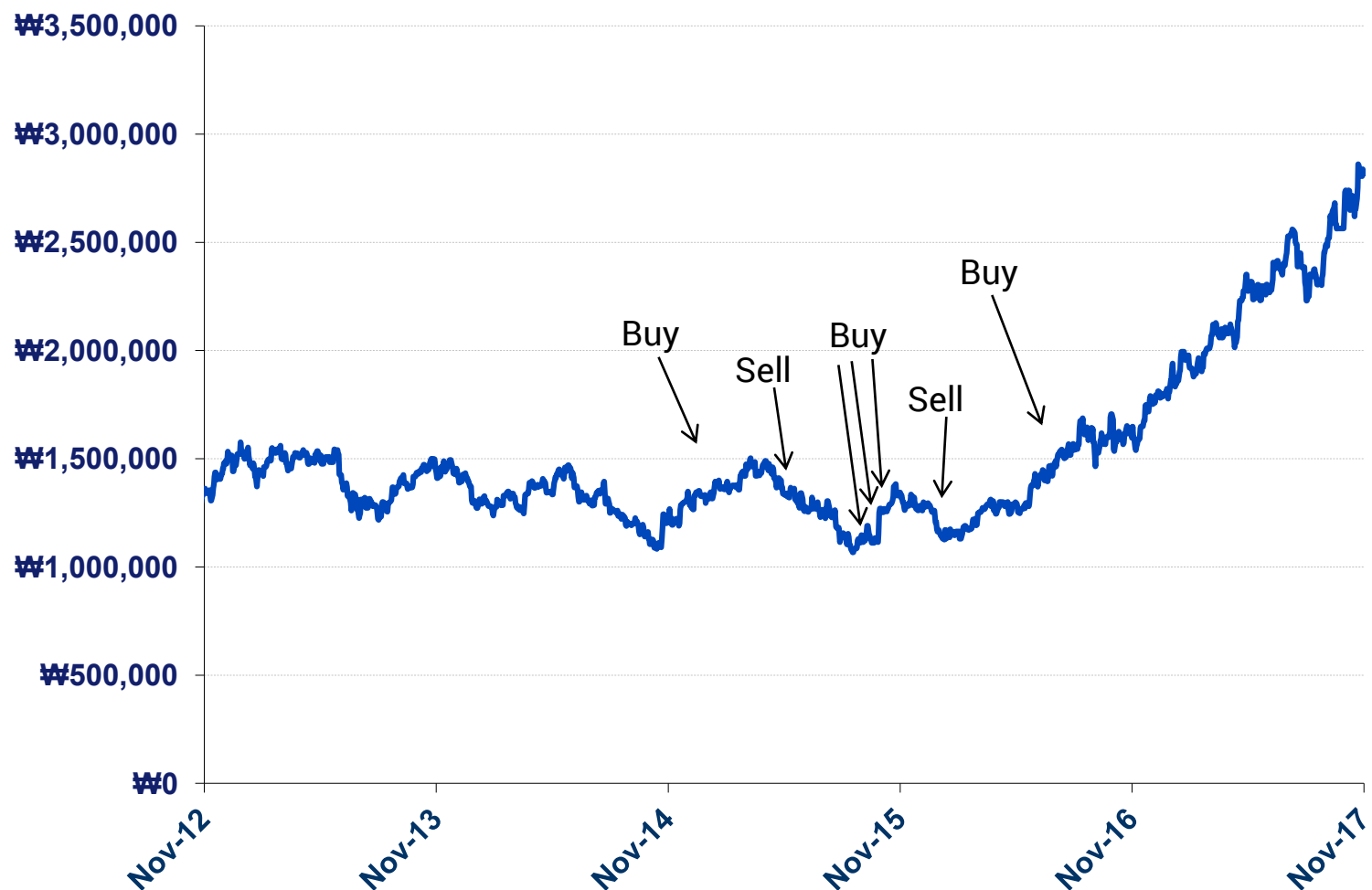
EPS Growth	19%
PE	7.6x
PEG	0.4
OCF yield	21.3%
FCF yield	10.4%
Cash	₩ 72,9T
Debt	0
Market Cap	₩ 364T

## Fundamental Analysis

- Samsung is on a very attractive PEG, operating cash flow and free cash flow multiples looking forward one year
- Fundamentals are good even after the stock price is up 30% as Earnings per Share are up nearly 100% for the year post previous years poorer performance
- Apple \$880bln Market Cap, \$45bln profit, Samsung \$250bln Market Cap, \$19bln profit
- Improved perception towards the stock in general



# Samsung Electronics – Long Position





# Emeco Holdings Ltd (ASX EHL)

## Stock Profile

### Long Position

<b>EPS Growth</b>	89%
<b>PE</b>	19x
<b>PEG</b>	0.2
<b>OCF yield</b>	6.4%
<b>FCF yield</b>	5.7%
<b>Cash</b>	\$17M
<b>Debt</b>	\$455M
<b>Market Cap</b>	\$660M

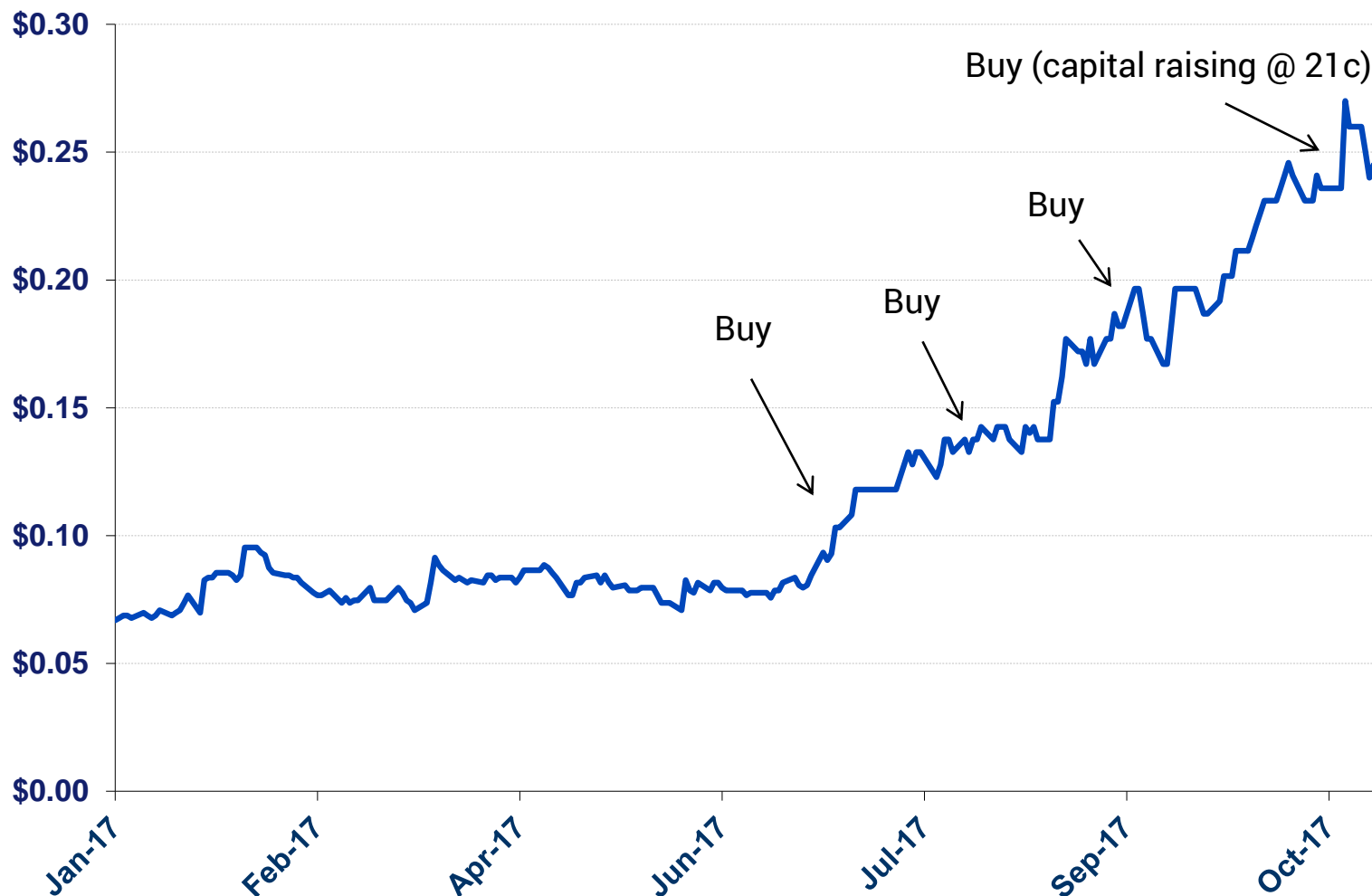
## Fundamental Analysis

- Legacy high leverage improved via creditor restructure
- Industry consolidation via 3 way merger
- Industry headwinds transformed to tailwinds courtesy of mining and infrastructure recovery.
- Earnings rebounding
- Leverage ratios improving dramatically.
- Management with significant skin in the game
- Compelling valuation metrics





# Emeco Holdings Ltd – Long Position





# Macmahon Holdings Ltd (ASX MAH)

## Stock Profile

### Long Position

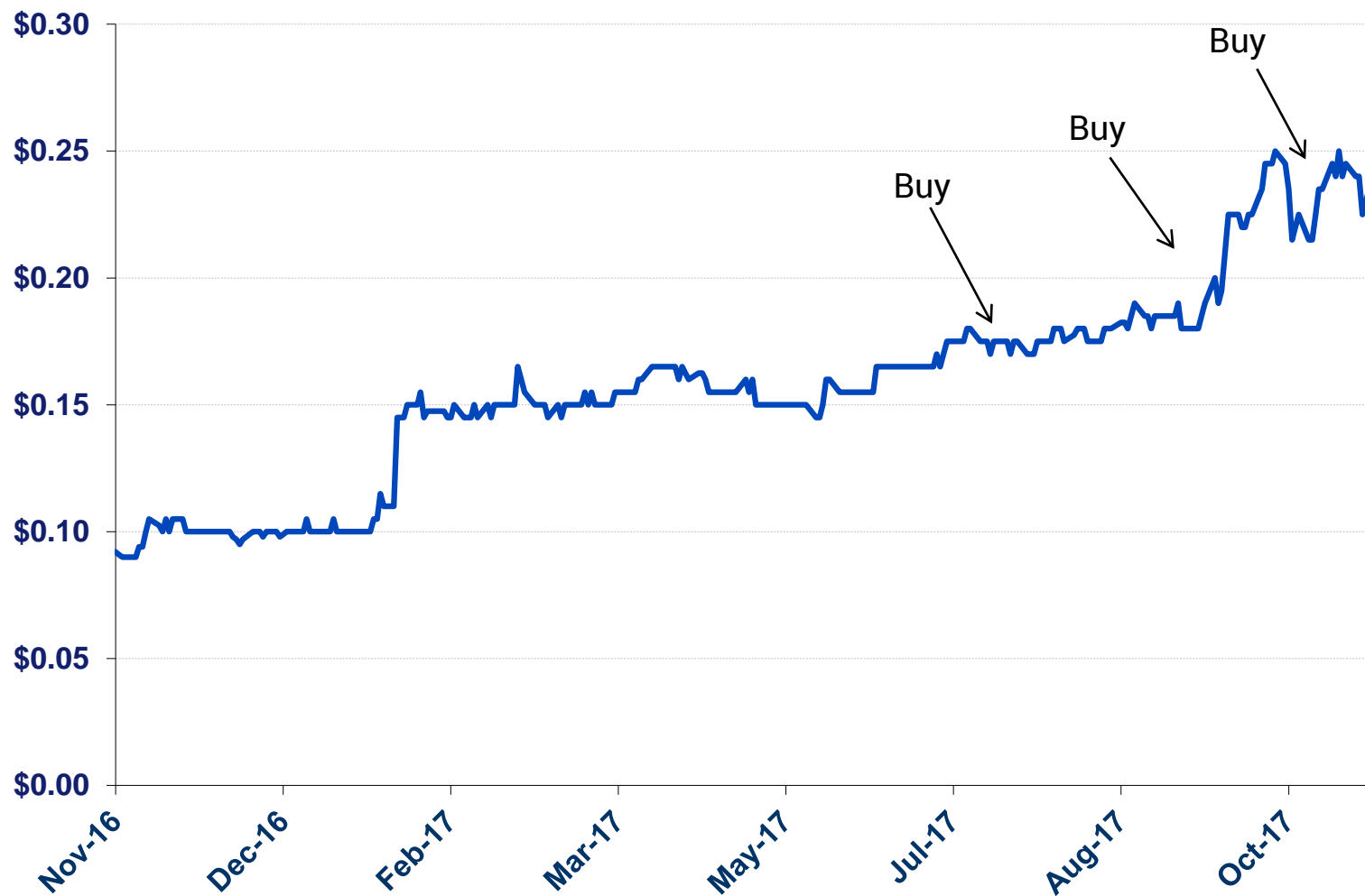
<b>EPS Growth</b>	106%
<b>PE</b>	9.5x
<b>PEG</b>	0.1
<b>OCF yield</b>	19.5%
<b>FCF yield</b>	7.7%
<b>Cash</b>	\$38.6M
<b>Debt</b>	\$8M
<b>Market Cap</b>	\$517M

## Fundamental Analysis

- Change in management, with under-performing management gone
- Turnaround at Telfer which was losing \$20m EBIT, looking at break even for 2018.
- Significant deal announced with Indonesian group AMNT which resulted in a 5 year contract and AMNT taking a 44% stake in the company.
- Earnings to increase substantially in both 2018 and 2019.
- Debt free balance sheet.
- Compelling valuation metrics.



# Macmahon Holdings – Long Position





# Domino's Pizza Enterprises (ASX DMP)

## Stock Profile

### Short Position

<b>EPS Growth</b>	20%
<b>PE</b>	29x
<b>PEG</b>	1.4
<b>OCF yield</b>	3.2%
<b>FCF yield</b>	1.1%
<b>Cash</b>	\$51M
<b>Debt</b>	\$329M
<b>Market Cap</b>	\$4.1B

## Fundamental Analysis

- DMP FY17 profit was below guidance and the shares have fallen significantly.
- There has been significant negative media coverage over the year regarding underpayment of staff in stores, and franchisees struggling to make money, which may impact growth in the number of stores.
- DMP guidance is for FY18 “underlying NPAT growth to be in the region of 20% for the Full Year”
- At their recent AGM DMP stated that “profit growth would be appreciably lower in the First Half” but did not alter full year guidance.
- DMP shares fell slightly after the AGM, but we believe investors should be on high alert that 20% NPAT growth will not be achieved.
- On a PE of 29 we expect the shares would again fall significantly if the FY18 result is also below guidance.



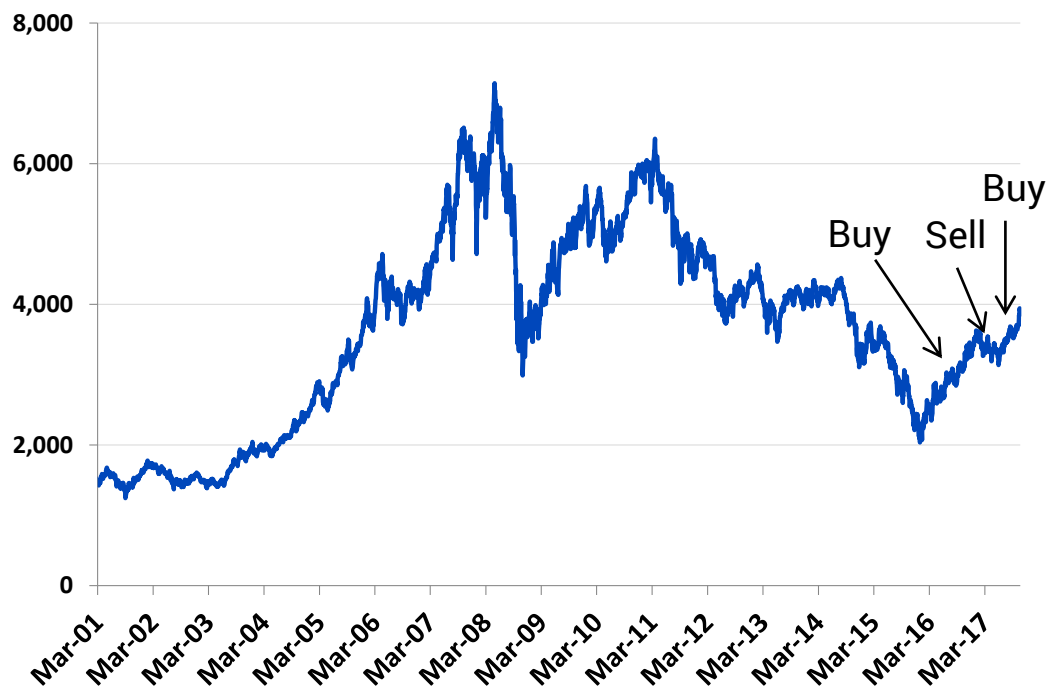
# Domino's Pizza – Short Position





# Resource Thesis

- S&P/ASX 200 Resources reached a low of 2,000 in January 2016 and is up 90% since. Is it a bull market yet?
- Iron ore & coal have been strong and more recently some base metals and rare earths



- Cadence has been scaling into both mining services and resource companies



# Outlook

- Cadence has generated strong returns and outperformance on both domestic and international positions
- One year ago the market was predominantly 'bearish' and 'fearful' and a year on we are starting to see the first tentative signs of synchronised global growth and a more 'bullish' temperament
- Whilst this optimism is not to be overstated, it does appear that the market continues to 'climb a wall of worry.'
- Early signs of a resources recovery need to be monitored closely with investments in mining and particularly mining services having performed very well this year
- 'Bubbles' or 'overvaluation' are starting to appear in the domestic market as well, with many stocks unable to meet our core criteria
- International stocks are proving worthwhile for the Cadence process with many 'undervalued' and 'under- appreciated' when compared to domestic equivalents
- We will continue to implement the Cadence Capital investment process seeking out both undervalued and overvalued investment opportunities, a process that has served us well over time and through different investment cycles.



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