Monash ABSOLUTE INVESTMENT COMPANY

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1) **3 October 2018**
September 2018 End of Month Update

In the interests of keeping the market fully informed of performance on a timely basis, we release a preliminary estimate of the Pre-Tax Net Tangible Asset Backing per share. It is only a guide, the official NTA will be released later in the month.

We estimate that as at 30 September 2018 the NTA Pre-Tax was $1.0118.

Company Strategy

The Company is benchmark unaware, style and stock size agnostic, both long and short, and only invests in compelling opportunities. In keeping with the Company's absolute return objectives, if the investment manager cannot find stocks that meet the very high return hurdle requirements, the Company will preserve that capital in cash at bank.

Dividend, Buyback and SPP

The company's inaugural dividend of 1 cent fully franked was declared in August, and our share price went ex the dividend entitlement on 13 September.

The Company completed the equal access buy back and share purchase plan on 12 September 2018. The buy back and offer price was $0.96 per share, which was a 5% discount to pre-tax NTA. The Company bought back 10% of the shares on issue. A small number of shareholders participated in the SPP.

Monthly Commentary

For the first quarter of the financial year, the pre-tax NTA is up +2.85% (after fees) compared to the S&P/ASX200 up +1.21% and the Small Ords up +1.10%.

For the month of September, pre-tax NTA rose +0.15% (after fees) during which the S&P/ASX200 decreased by -1.26% and the Small Ords by -0.35%.

This month value was added from good news for Leigh Creek (ASX: LCK) and by participating in the Healthia (ASX: HLA) IPO, which together offset some price weakness in other stocks.

Company at a Glance 30 September 2018

ASX Code	MA1
Portfolio Size	$45.3m
Share Price	$0.85
Shares on Issue	44.3m

Estimated NTA (unaudited) 30 September 2018

Estimated NTA Pre Tax	$1.0118

Return Estimate to 30 September 2018

	NTA Pre Tax
1 Month	0.15%
3 Months	2.85%
6 Months	3.08%
FYTD	2.85%
1 Year	14.19%
Since Inception p.a. (April 2016)	2.02%

Portfolio Structure 30 September 2018

Outlook Stocks (Long)	17 Positions	62%
Outlook Stocks (Short)	1 Position	-3%
Event, Pair and Group (Long)	2 Positions	13%
Event, Pair and Group (Short)	1 Position	-6%
Cash		33%
TOTAL		**100%**
Gross Exposure		84%
Net Exposure		67%

For more information about the Company and the strategy, please refer to the Monash Investors website at www.monashinvestors.com. You can also follow us on Livewire here or subscribe to our updates here

Healthia

Healthia operates in the allied health services of podiatry and physiotherapy. It owns:

- 72 “My FootDr” podiatry clinics (out of the 5,920 in Australia)
- 23 “Allsports Physiotherapy” physiotherapy clinics (out of the 2,393 in Australia)
- 7 “Extend Rehabilitation” hand therapy clinics
- An “iOrthotics” orthotics laboratory, and
- A 50% interest in “D.B.S. Medical” allied health supplies

It is looking to expand its network, and bring efficiencies of scale from consolidation, to improve the quality and profitability of the fragmented allied health industry.

We have seen such models successfully implemented many times in the past. For example, Sonic Healthcare (ASX: SHL) was a consolidation of pathology services, Primary Healthcare (ASX: PRY) a consolidation of General Practitioners, Greencross (ASX: GXL) a consolidation of veterinary clinics, and G8 (AXS: GEM) a consolidation of childcare centres. All of these consolidations were very successful in their initial stages.

Typically, these “industry roll-ups” start small, and demonstrate a solid track record of growing revenues and margins, and integrating businesses. They are able to acquire private businesses at valuation multiples below their own share price, and this allows them to raise equity as they consolidate their industry, creating a virtuous circle. During this process the stock price usually sees an increase in its own valuation multiple, at the same time it is growing earnings per share, leading to solid share price growth over the medium term.

The Healthia IPO looks to us to tick all the boxes in terms of following in the footsteps of successful industry consolidations.

- The allied health industry is particularly fragmented. For example, no one operator in the physiotherapy sector held more than 3.0% of total sector revenue in 2017. So, this is a very early stage roll-up.
- The business has highly experienced senior management, whose learnings from previous endeavours have shaped its organisational structure and practitioner incentives. Dr Glen Richards, the founder and former CEO of Greencross, is HLA Chairman. Wesley Coote, the former CFO of Greencross, is the HLA CFO.
- The initial PE multiple was relatively low – at $1 it was 13x pro-forma EPS, despite expected organic growth, and balance sheet headroom to grow by acquisition before making a call on the market.

We invested in HLA at an IPO price of $1.00 and it closed at 30 September at a price of $1.22.

Leigh Creek

Leigh Creek Energy Limited is developing remnant coal resources at Leigh Creek, in South Australia, via in-Situ Gasification. On 3 September, it received final approval from the regulator to proceed with its Pre-Commercial Demonstration (PCD) to produce synthetic natural gas.

Successful PCD operations will be a significant milestone in LCK’s progress to commercialisation and the Company’s immediate near term objective of then upgrading of its 2,964 PJ 2C resource to a 2P reserve in Q4 2018.

To put this in perspective, this is about 2.6% of Australia's gas reserves as reported in the AFR recently[i].

On the business day following regulatory approval, an application was made by The NSW Environmental Defenders Office seeking:

- judicial review of the decision by the South Australian Minister for Energy and Mining to issue various approvals, and
- to injunct the operational start-up of the Pre-Commercial Demonstration facility (PCD) at Leigh Creek in South Australia.

Within a few days, the South Australian Supreme Court dismissed the application. With the granting of PCD approval and its successful legal defence, the LCK share price rose 50% for the month of September.

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[i] https://www.afr.com/business/energy/gas/reserves-shock-sharpens-east-coast-gas-crisis-20180309-h0xa3l