

QV Equities Investor Update

24 October 2018



IML INVESTORS
MUTUAL LTD

QV Equities Limited

- ❑ 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

Investor needs:

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

Investment Philosophy: focus on quality

We seek to buy and own:

Companies with a competitive advantage,

with recurring earnings,

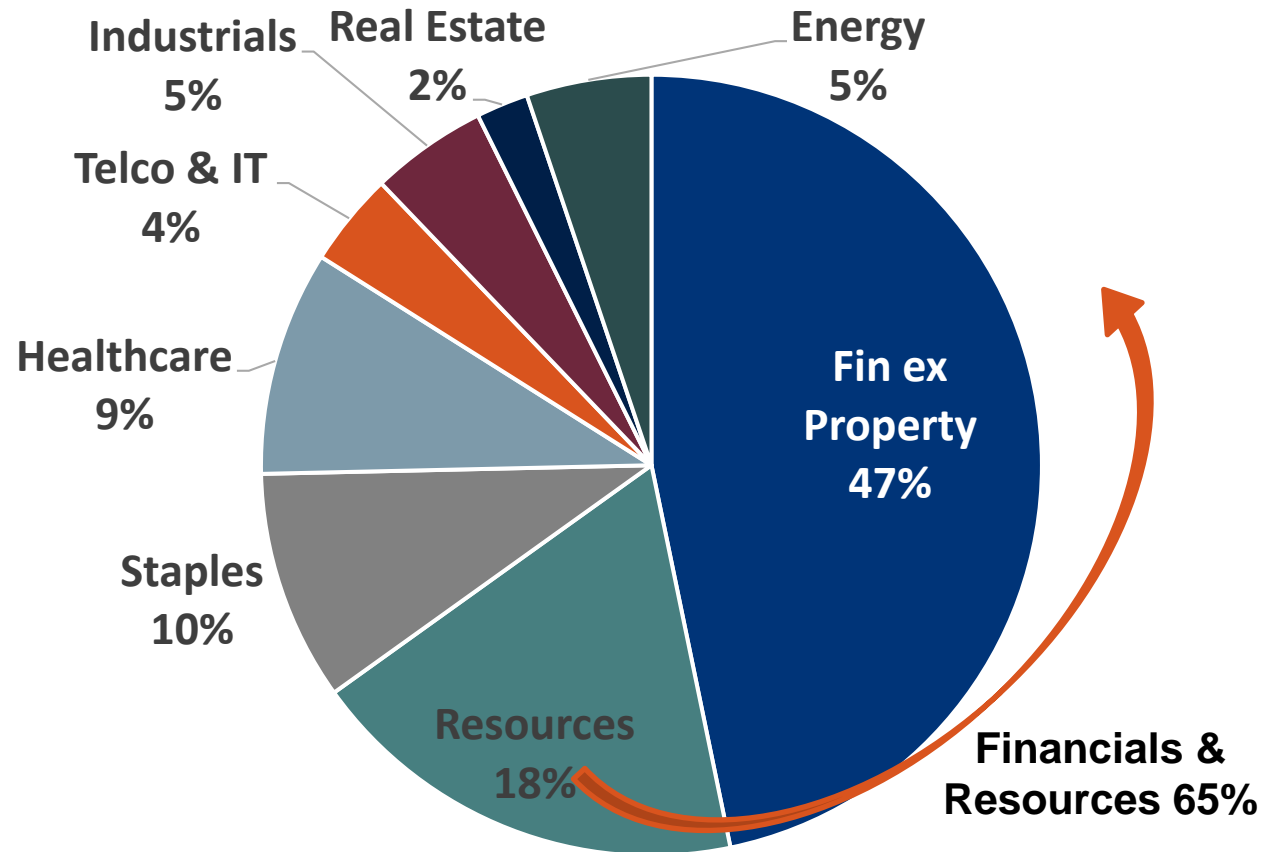
run by capable management,

that can grow,

.....at a reasonable price.

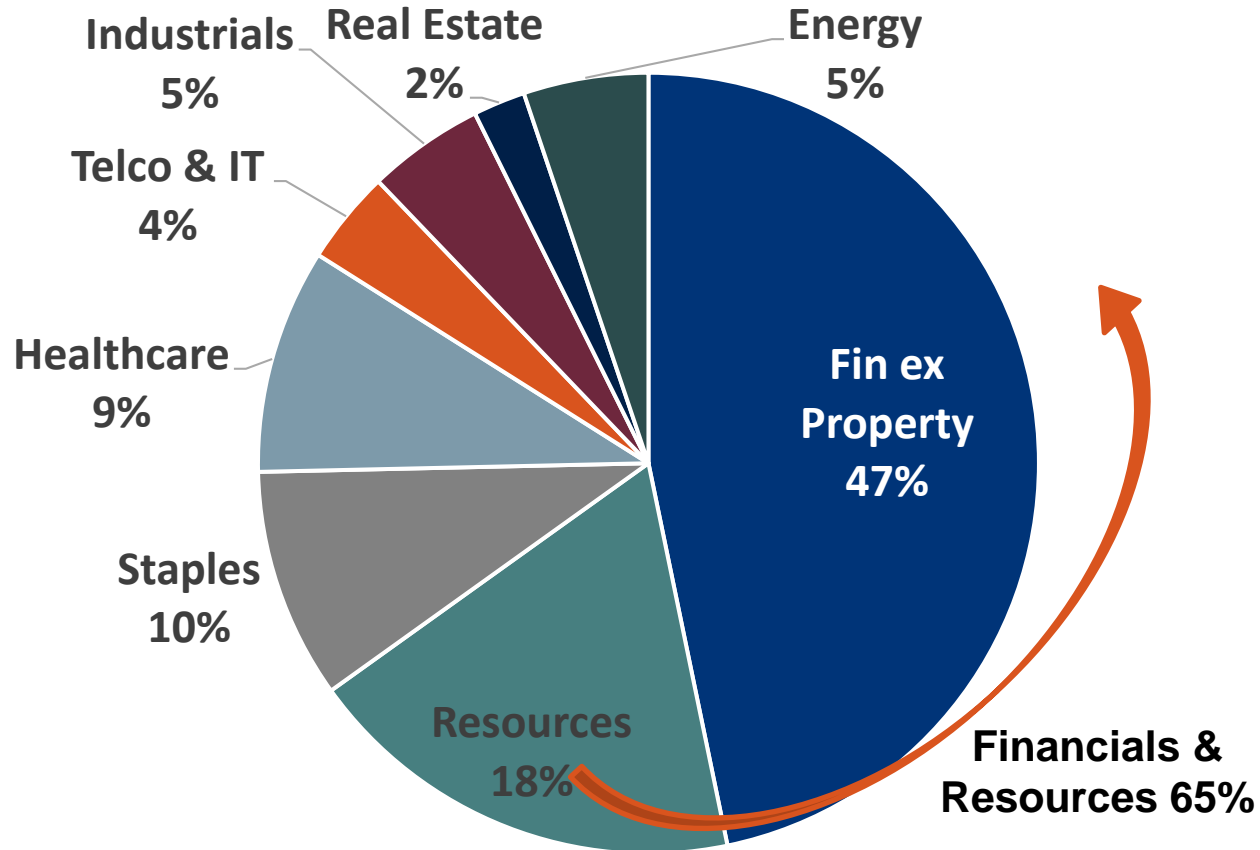
ASX 20 vs ex20

ASX 20- Dominated by Financials & Resources

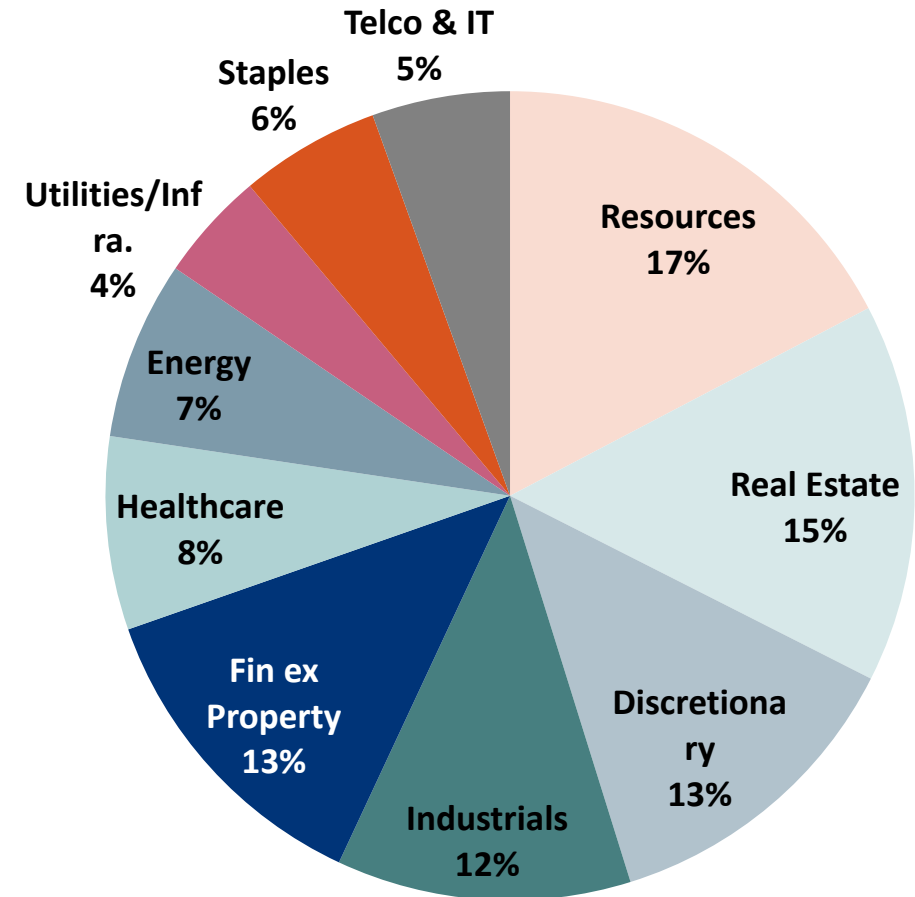


ASX 20 vs ex20

ASX 20- Dominated by Financials & Resources



ASX ex20- More diverse sectors



Why focus on an Ex 20 managed portfolio?

- ❑ More diverse in terms of industry sectors
- ❑ Less researched opportunities
- ❑ Investors typically not exposed to this segment
- ❑ Solid yields on offer
- ❑ Often leaders in their field
- ❑ IML has a long record of significant value add in this segment

QVE Portfolio focus

- ❑ **Quality** industrial stocks
- ❑ Companies that can **grow** over time
- ❑ Companies with reliable **income** streams

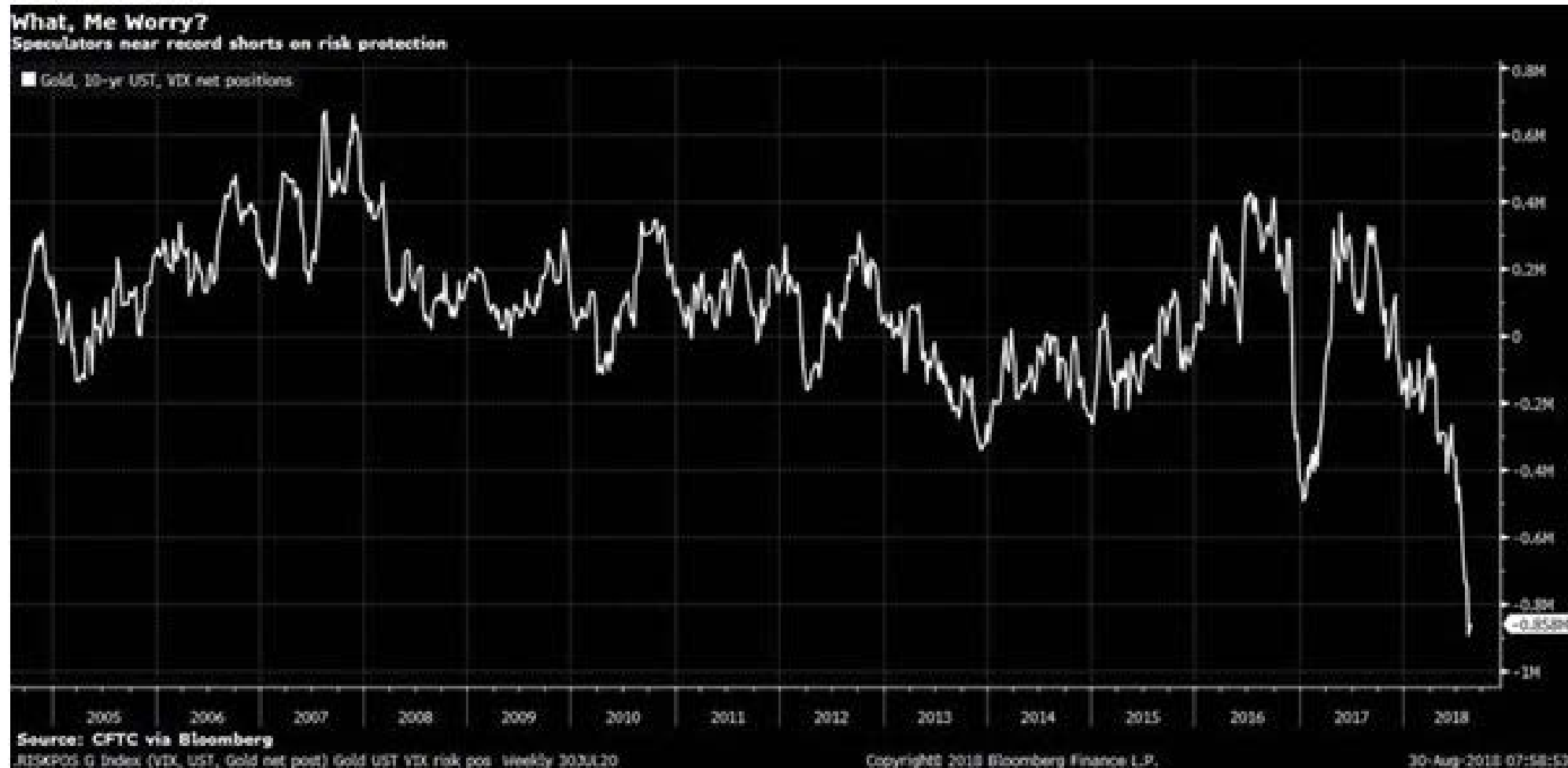
Outlook: Will the next five years resemble the last five?



QV
Equities Ltd.

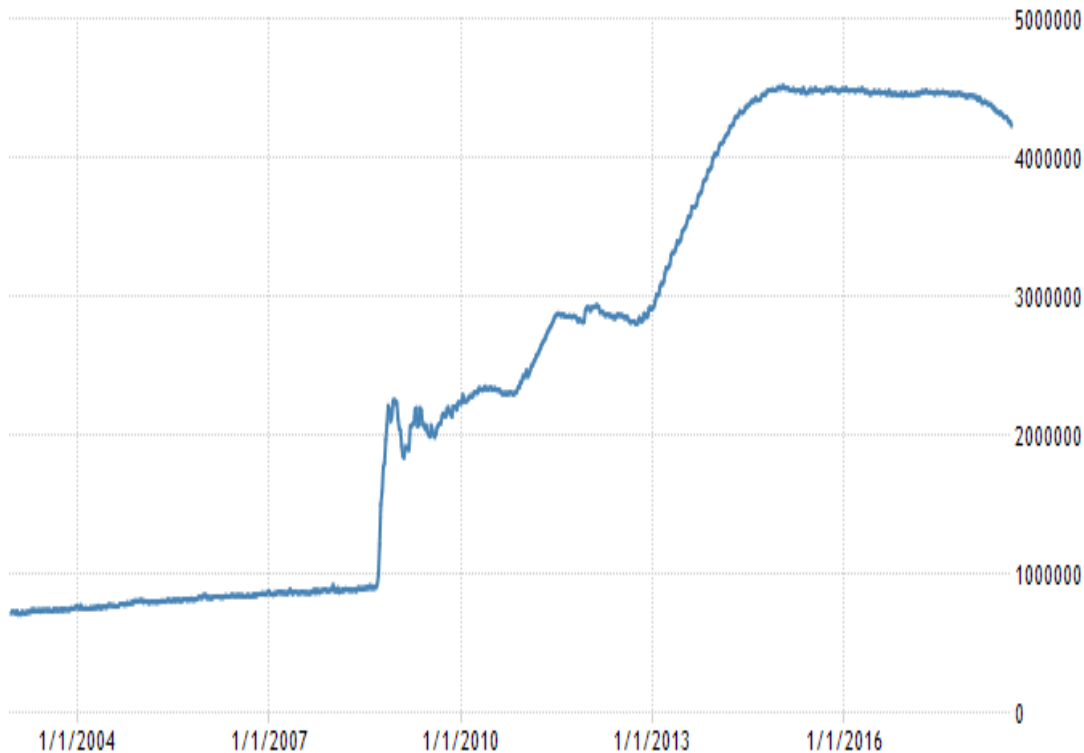
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Markets had become complacent



End of quantitative easing (QE) as Central Banks reign in the money supply

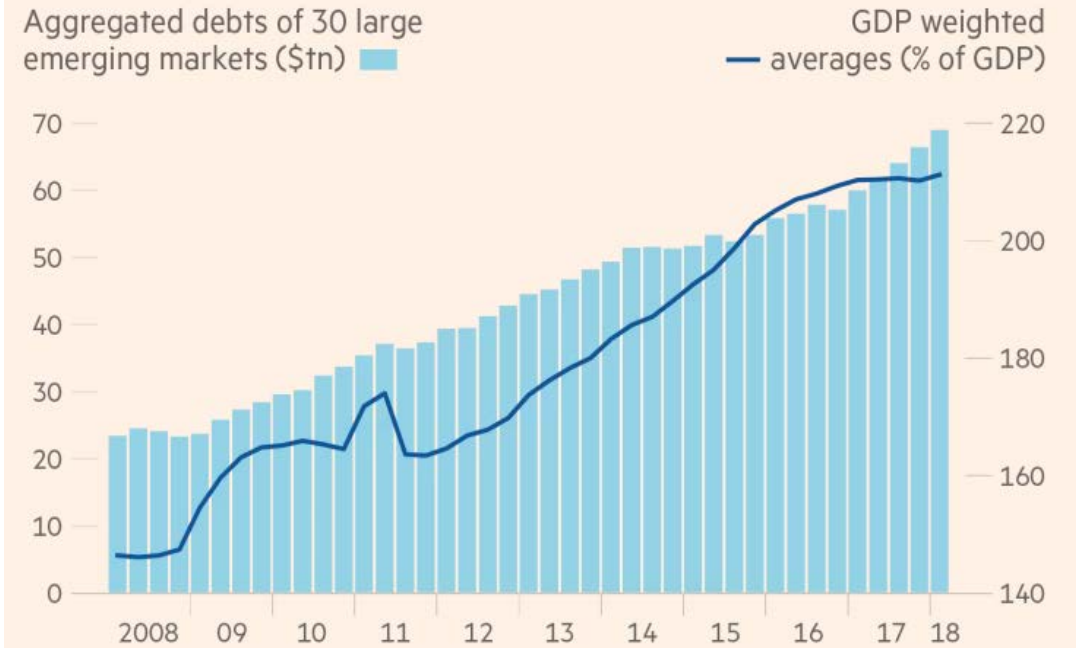
US – All Federal Reserve Banks: Total Assets



Source: Tradingeconomics.com

The Emerging Markets conundrum

EM debt pile continues to grow



Source: Institute of International Finance
© FT

The US economic expansion and low unemployment – is there further upside?

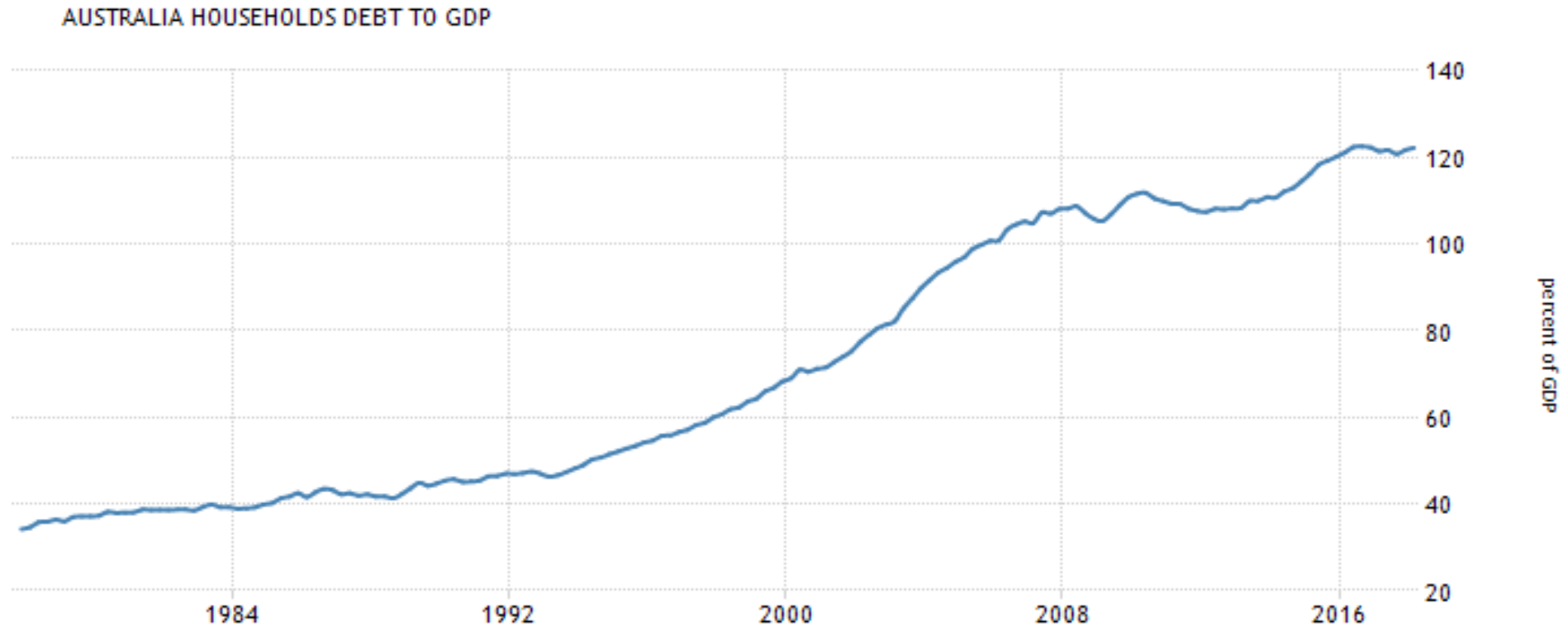
US Unemployment levels close to two-decade lows



SOURCE: TRADINGECONOMICS.COM | U.S. BUREAU OF LABOR STATISTICS

Australian housing – peak prices?

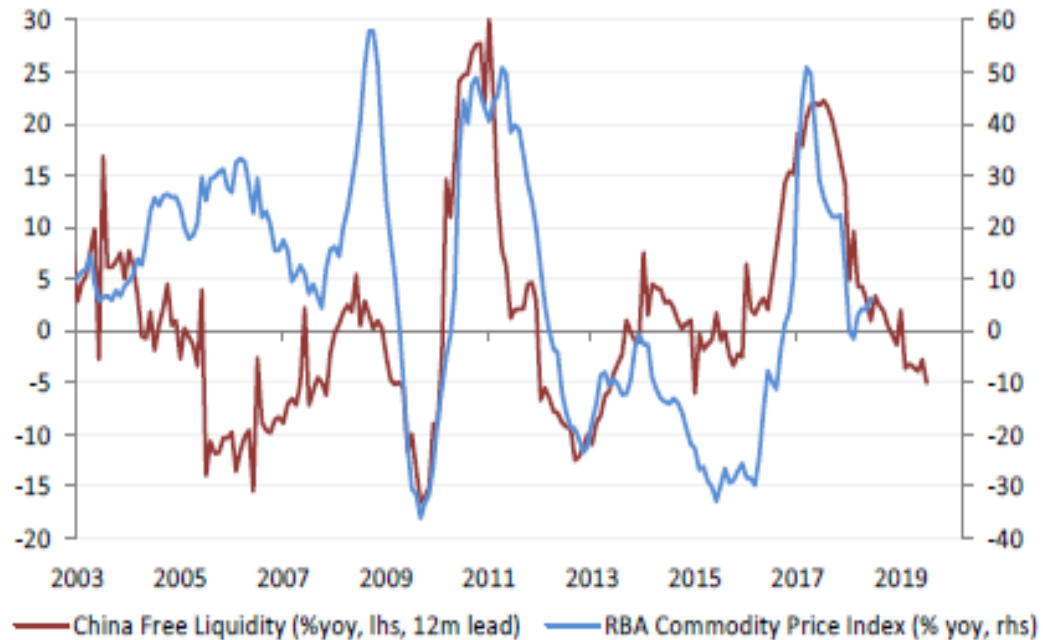
Australian household debt to GDP – significant elevation over the last 4 years



SOURCE: TRADINGECONOMICS.COM | BANK FOR INTERNATIONAL SETTLEMENTS

Chinese growth and fiscal stimulus – how long can it continue?

Commodity prices have become increasingly dependent on China stimulus



Source: RBA, NBS, PBC, Morgan Stanley Research

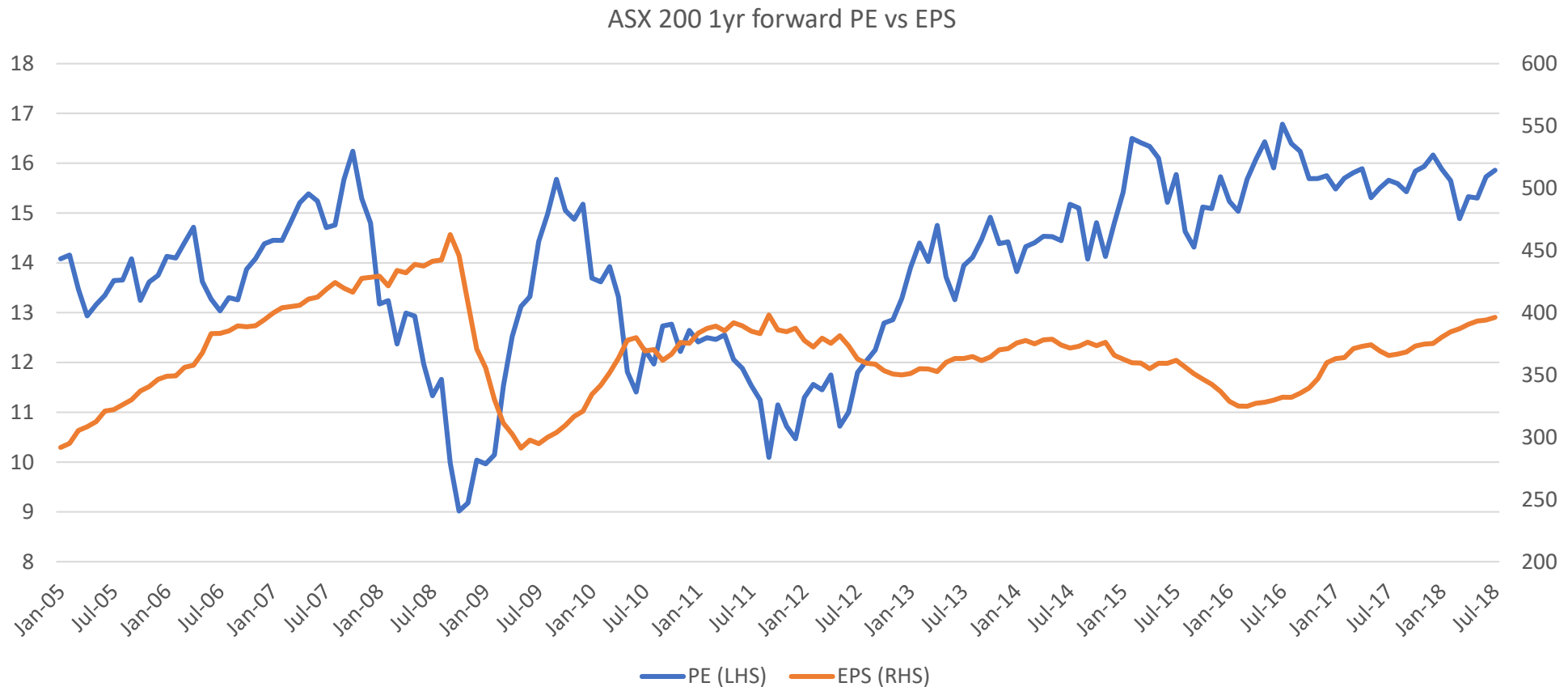
China Fixed Asset Investment continues to decline as their economy matures



SOURCE: TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

Valuation expansion – can we go much higher?

The growing divergence between the ASX200's PE multiples and EPS levels



Source: FactSet;
As at 31 July 2018

The IT momentum trade



	PE	
	FY19 (F)	FY20 (F)
ALU	50x	40x
APT	195x	64x
APX	32x	26x
WTC	103x	76x
XRO	151x	77x
AVG	106x	56x

	PE	
	FY19 (F)	FY20 (F)
GWA	14x	13x
PGH	12x	11x
SKC	15x	16x
SXL	12x	12x
AVG	14x	13x

Performance & NTA – as at 30 September 2018

NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax cum div	\$1.22
NTA after tax cum div	\$1.18

PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	-0.7%	-0.4%	-1.5%
3 Months	-0.2%	-0.2%	+1.5%
6 Months	+4.5%	+3.6%	+9.0%
1 Year	+7.7%	+6.3%	+15.9%
Since Inception Total Return p.a	+9.0%	+7.5%	+11.6%

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid for pre-tax NTA. Past performance is not indicative of future performance.

*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. All figures are unaudited and approximate.

Best performing sectors for FY18

Best performing sectors	
Energy	+51%
Consumer Staples	+38%
I.T.	+32%
Materials	+16%
Consumer Discretionary	+15%

QVE's best performing stocks for FY18

Best performers
Tox Free
Integral Diagnostics
Crown Resorts
ASX
Pinnacle Investments

QVE portfolio- disappointing performers

 Pact Group

 Myer

 Orica

Buys for the last 12 months

New stocks
Crown Resorts
IPH
Charter Hall Retail Trust
Coca Cola
Pro-Pac Packaging

Buys for the last 12 months

New stocks	Additions
Crown Resorts	Orica
IPH	Aurizon
Charter Hall Retail Trust	Skycity Entertainment
Coca Cola	Mayne Pharma
Pro-Pac Packaging	Pact Group

Sales for the last 12 months

Disposals
Tox
Flight Centre
Integrated Research
Pinnacle Investments
FlexiGroup
MyState

Sales for the last 12 months

Disposals	Trims
Tox	Sonic Healthcare
Flight Centre	Ansell
Integrated Research	Mayne Pharma
Pinnacle Investments	
FlexiGroup	
MyState	



- ❑ Leading integrated casino and resorts operator in Australia
- ❑ Domestic focused strategy to maximise returns & cash flows
- ❑ Strong balance sheet with no net debt
- ❑ VIP activity rebounding from lows
- ❑ Upside from new Sydney casino expected in 2021



- ❑ Strong competitive position in global explosive markets
- ❑ High barriers to entry with long term contracts
- ❑ Exposed to mining volumes, not commodity prices
- ❑ Upside from spending on Research & Development
- ❑ Currently trading on FY20 PE: 14.5x

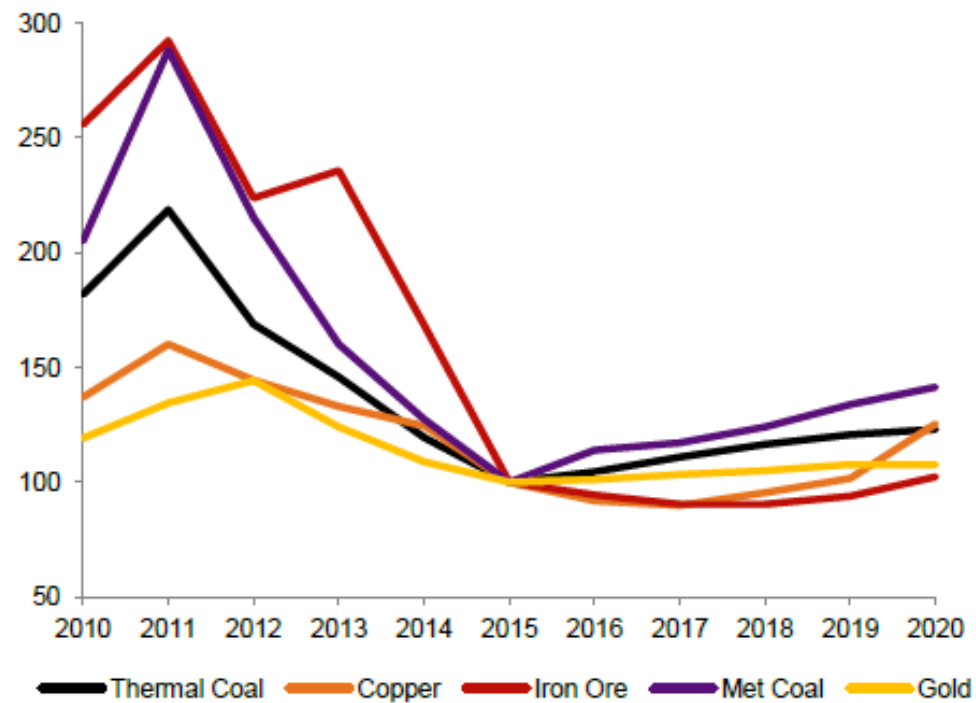


Source: IML; As at 23 October 2018

Orica – growth cyclical

Commodity Prices

Global Pricing Index (2015=100)

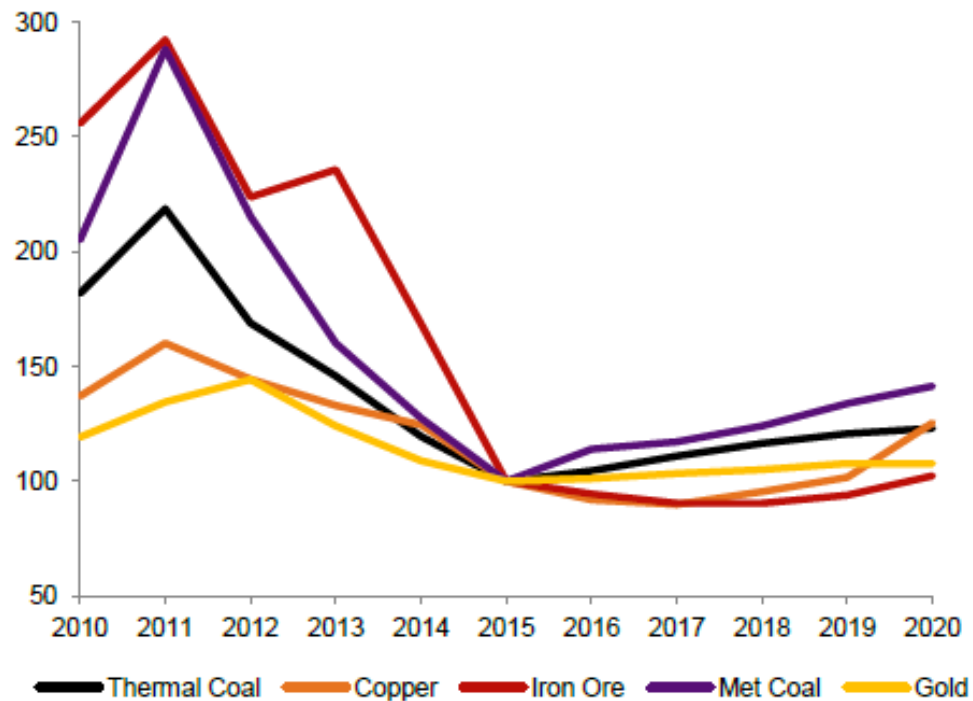


Source: Orica FY15 result presentation

Orica – growth cyclical

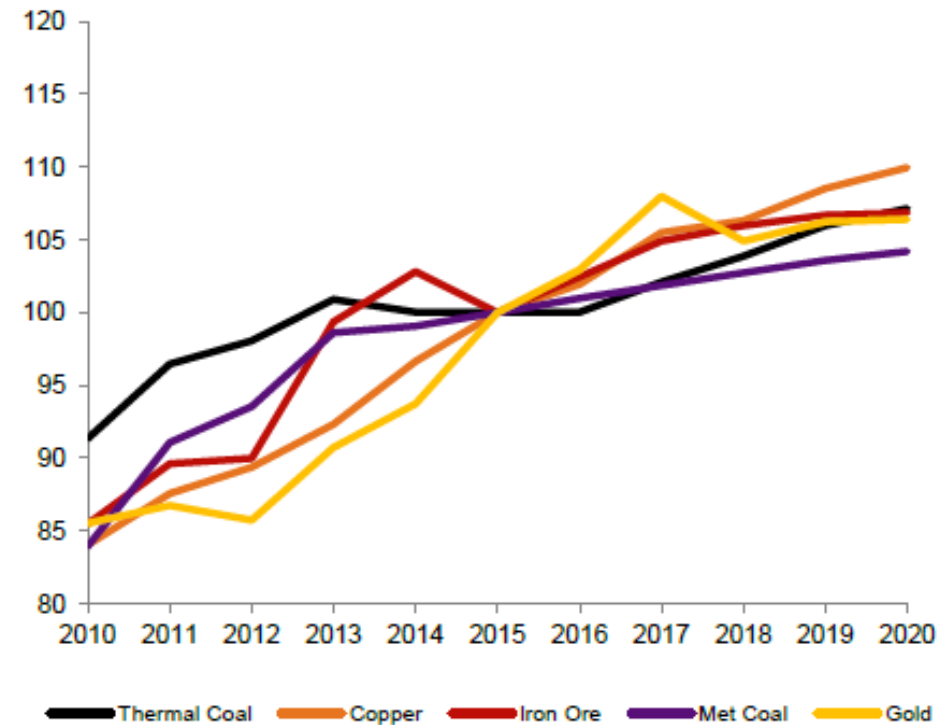
Commodity Prices

Global Pricing Index (2015=100)



Commodity Volumes

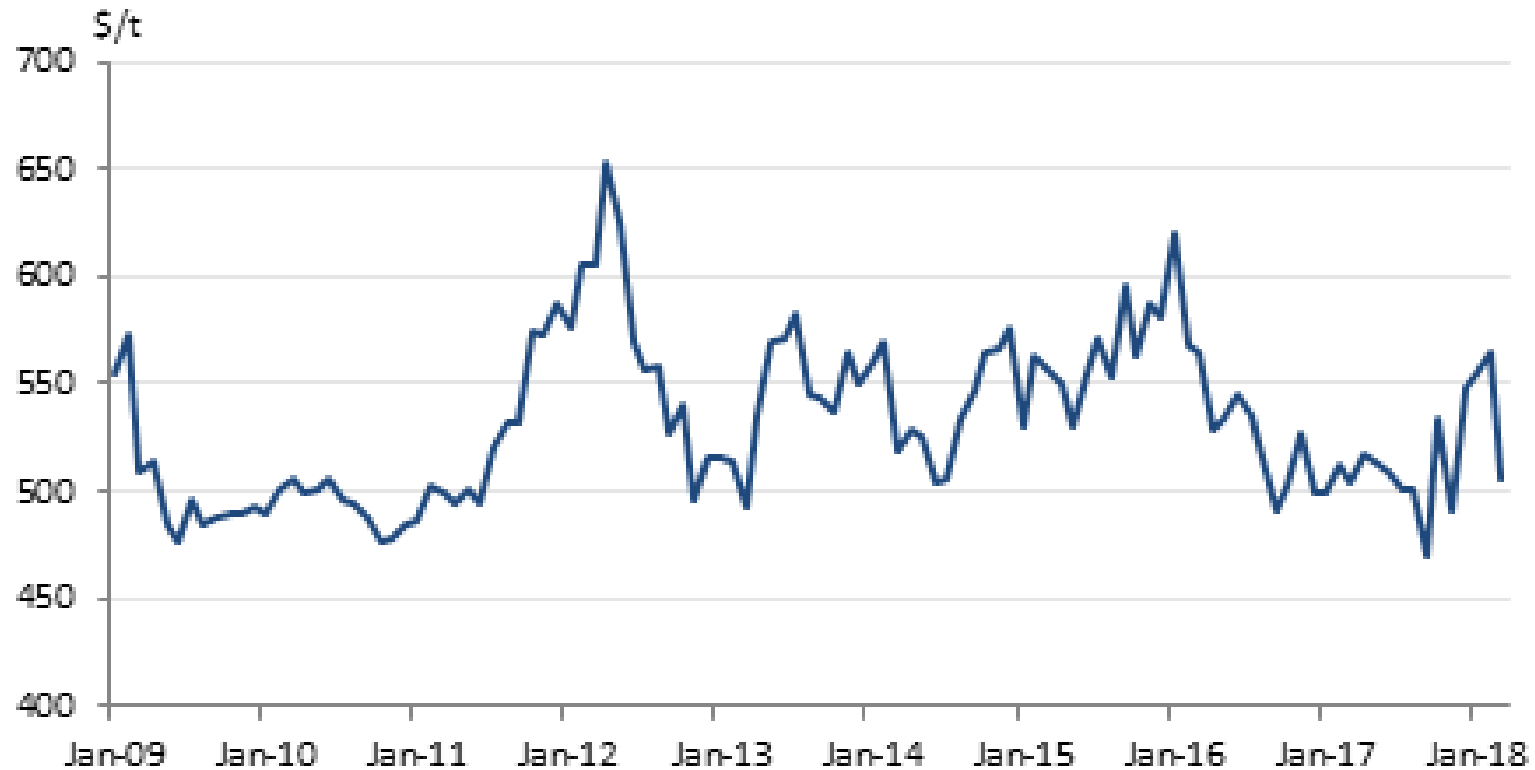
Global Volume Index (2015=100)



Source: Orica FY15 result presentation

Orica – Ammonium Nitrate prices close to decade lows

AUD AN IPP price per ton



Source: Morgan Stanley;
As at 31 March 2018

Orica investing in technology

❑ World first wireless initiation system

- Eliminates high risk activities
- Increases productivity & reliability

❑ 2nd generation product will be suitable for open cut mines

- Available 2020

Complex life at the face



Wireless Future



Source: IML ;
As at 19 October 2018

Pact Group



- ❑ Largest manufacturer of rigid plastics in Australasia
- ❑ Majority of revenues from defensive consumer end-use products
- ❑ Growing in contract manufacturing and materials handling
- ❑ Impacted by higher input prices
- ❑ Generates very good cash flow



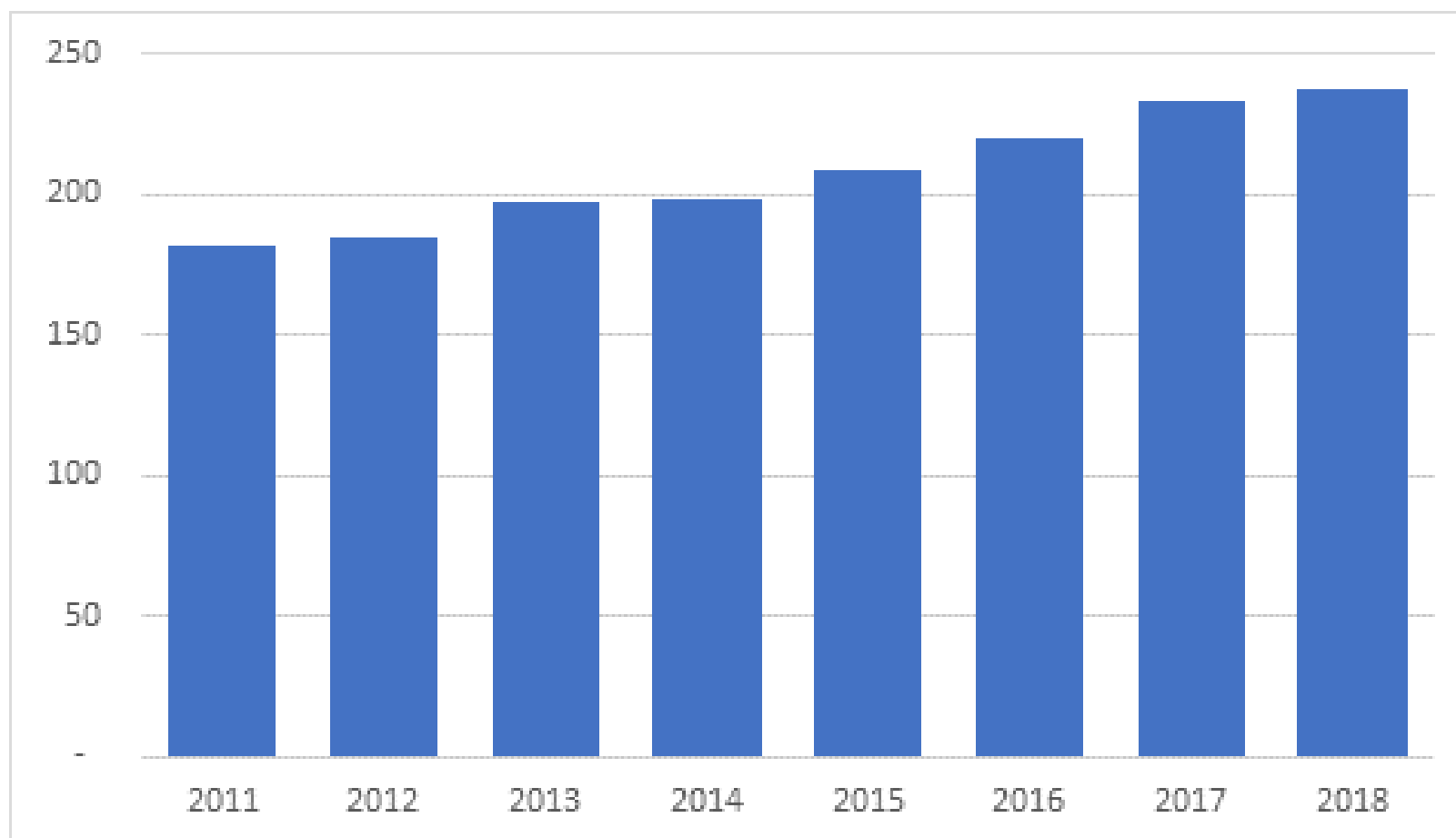
Input prices rising – Resin



Source: Bloomberg;
As at 31 October 2018

Pact Group EBITDA

AUD (\$m)



Source: Pact Group

- ❑ Remains an iconic, trusted brand
- ❑ Revenue of \$3 billion
- ❑ New management team
- ❑ Successful refinancing
- ❑ Repositioning to be a successful omnichannel retailer

- ☐ Reducing Head office costs
- ☐ Repositioning the Myer brand
- ☐ Store space optimisation
- ☐ Better merchandising through more home brands & exclusive brands
- ☐ Leveraging Myer One and the launch of a new website

Outlook

❑ Rising US interest rates

❑ EU instability

❑ Trade war

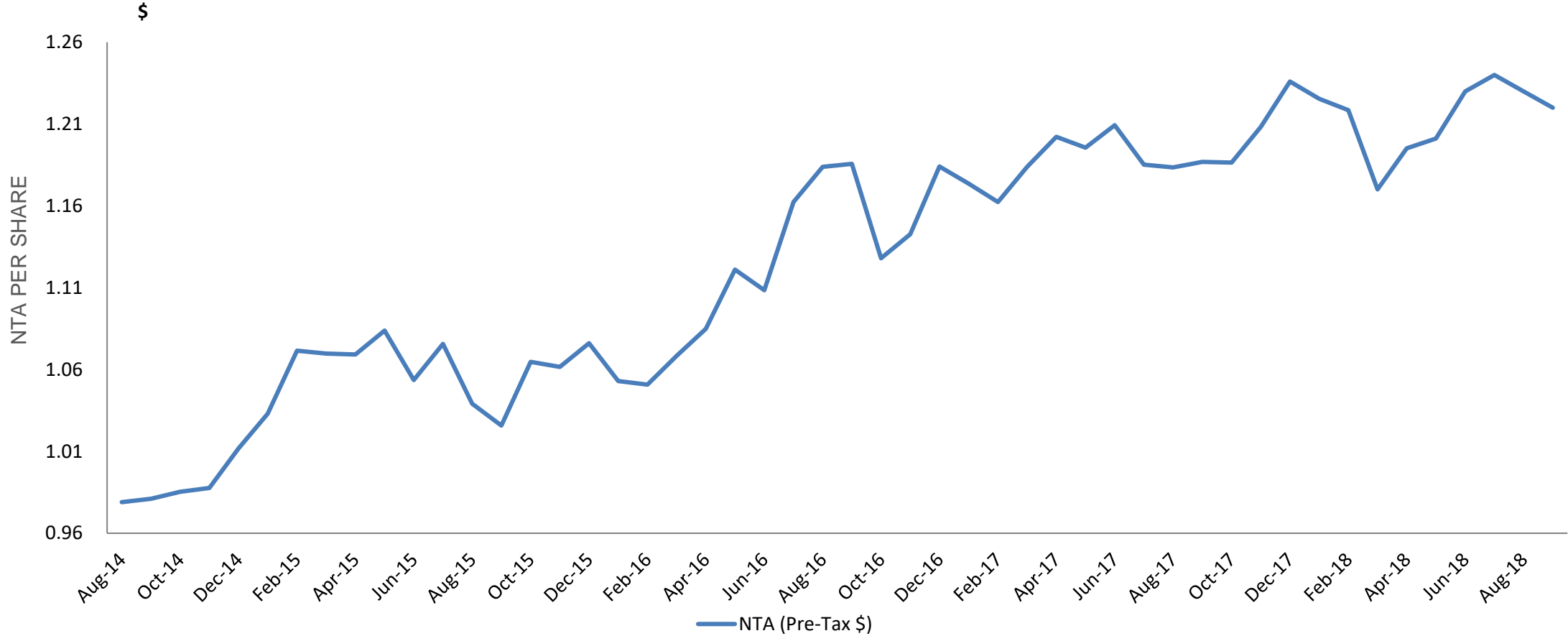
❑ Policy void in Australia

.....Uncertain period ahead

Portfolio construction

- ❑ Portfolios underpinned by quality industrial companies
- ❑ Discipline required on valuations
- ❑ Sustainable earnings from a diverse range of sectors
- ❑ Solid and consistent dividend levels
- ❑ Cash ready to take advantages of a pull back

Historical NTA

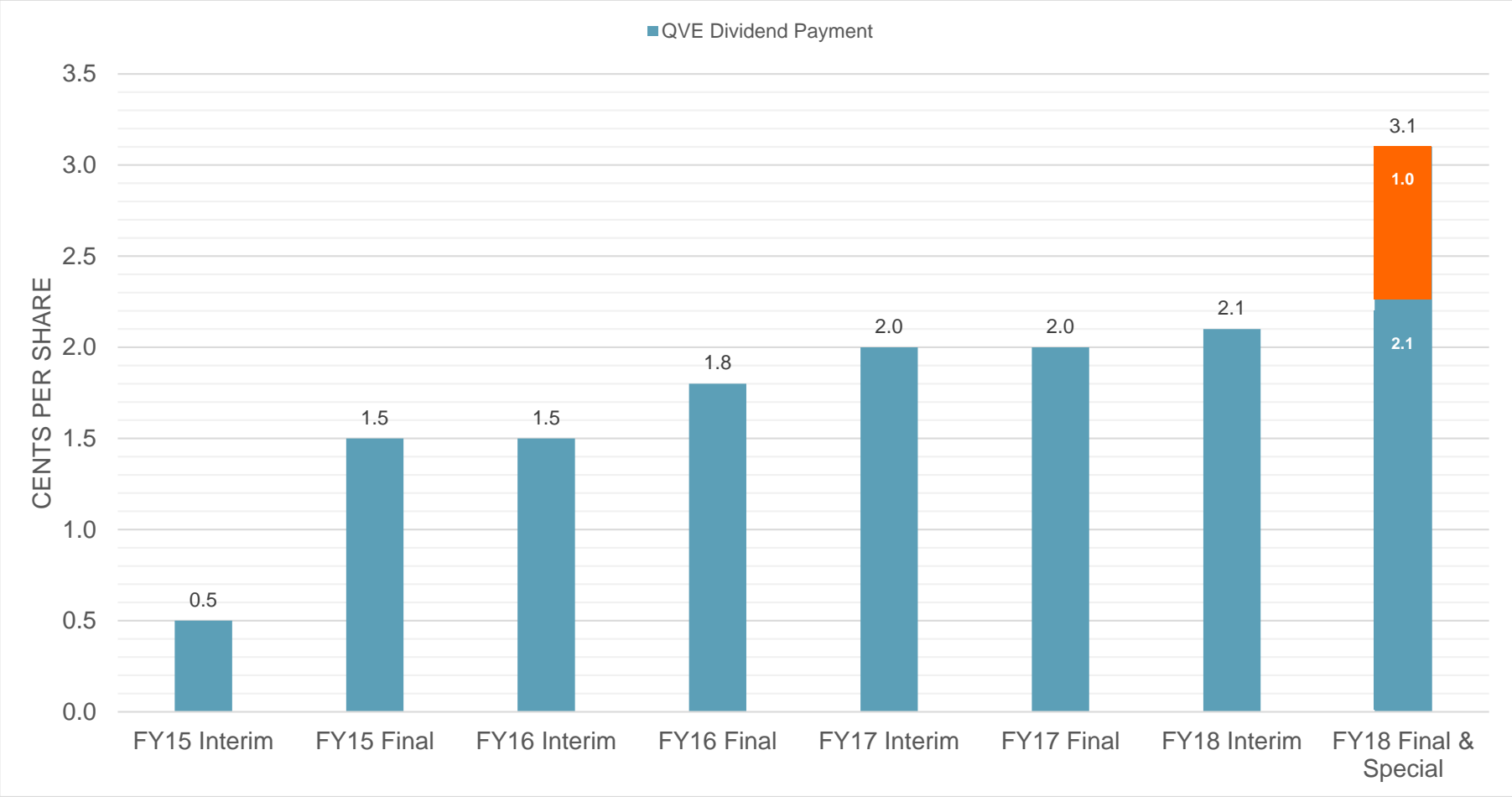


Past performance is not a reliable indicator of future performance

Source: QVE NTA as at 30 September 2018



Historical Dividends to QVE Shareholders

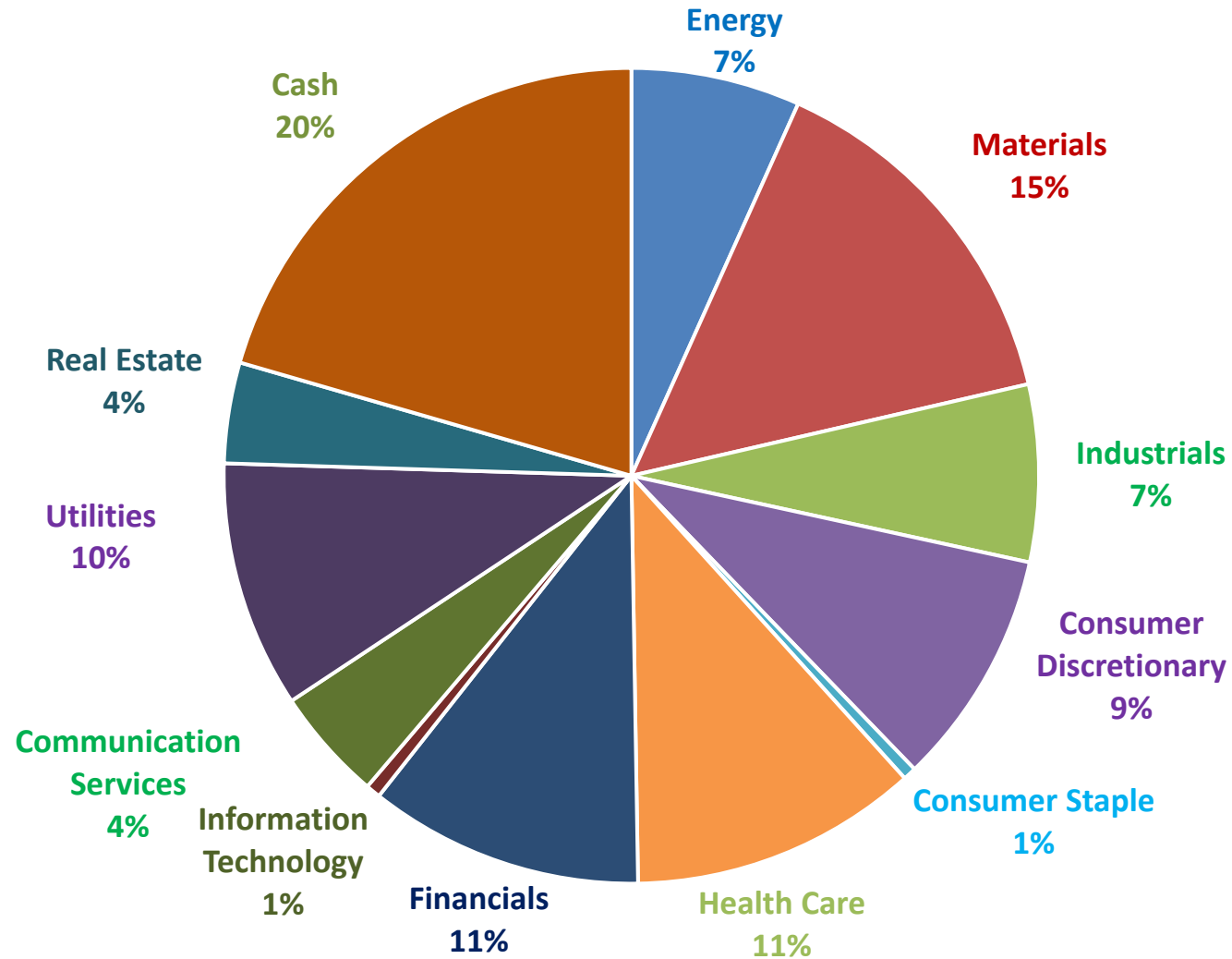


Past performance is not a reliable indicator of future performance

Source: QVE Annual report as at 30 June 2018



QVE Portfolio as at 30 September 2018



The relevance of QVE in your portfolio

- ❑ 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....

20 lessons from 20 years of quality and value investing



www.iml.com.au/20-lessons

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