

Cadence Capital Limited (ASX Code: CDM) Half Year Webcast December 2018

Click to view the December 2018 Half Year Webcast

In this Webcast, Karl Siegling discusses the company's performance for the half year, including a detailed review of the top holdings. He then concludes with an updated outlook for the fund.

Cadence Capital Ltd Pty Ltd ACN 112 870 096
Level 11, 131 Macquarie Street, Sydney NSW 2000 Australia
Telephone +612 8298 2450, Facsimile +612 8298 2499
Web: www.cadencecapital.com.au
Email: info@cadencecapital.com.au



Cadence Capital Limited

Half Year Webcast December 2018



CADENCE
CAPITAL LIMITED



Half Year Performance

Gross Performance* to 31st Dec 2018	CDM	All Ords Accum	Outperformance
1 Month	-5.9%	-0.5%	-5.4%
YTD	-19.9%	-7.3%	-12.6%
1 Year	-18.1%	-3.5%	-14.6%
3 Years (per annum)	-1.7%	6.6%	-8.3%
5 Years (per annum)	2.1%	5.7%	-3.6%
8 Years (per annum)	9.7%	6.6%	+3.1%
10 Years (per annum)	15.1%	9.1%	+6.0%
Since Inception (13.3 years) (per annum)	12.9%	6.1%	+6.8%
Since Inception (13.3 years) (total return)	401.7%	118.0%	+283.7%

* Gross Performance: before Management and Performance Fees

- Biggest detractors from performance:
 - ARQ Group (previously Melbourne IT)
 - Emeco Holdings
 - Teva Pharmaceutical
 - Shine Corporate
 - Janus Henderson
- Biggest contributors to performance:
 - Credit Corp Group
 - Aurelia Metals
 - Stanmore Coal
 - G8 Education



CADENCE
CAPITAL LIMITED



Half Year Performance

- Growth companies trading at reasonable prices were significantly sold off, while expensive companies with little to no growth (e.g. REITs, utilities, consumer staples, healthcare) performed better.
- Small capitalisation companies were also sold off more than their larger counterparts, with the Small Ordinaries Index down 14.0% over the period.
- The fund held a large exposure to growth companies and small capitalisation stocks through this period which caused its underperformance.
- The largest detractor to fund performance was ARQ Group, with the share price falling primarily on the back of an earnings downgrade delivered in its 1H18 results. We discuss this holding in detail later in the webcast.
- The second largest detractor was Emeco Holdings. The fall in share price occurred despite no negative company specific news and was driven by a combination of profit taking, having been one of the top performing stocks in the market in the preceding twelve months, and concerns over the impact to earnings from the feared slowdown in global growth. We have reduced our holding in the stock and are watching it closely.

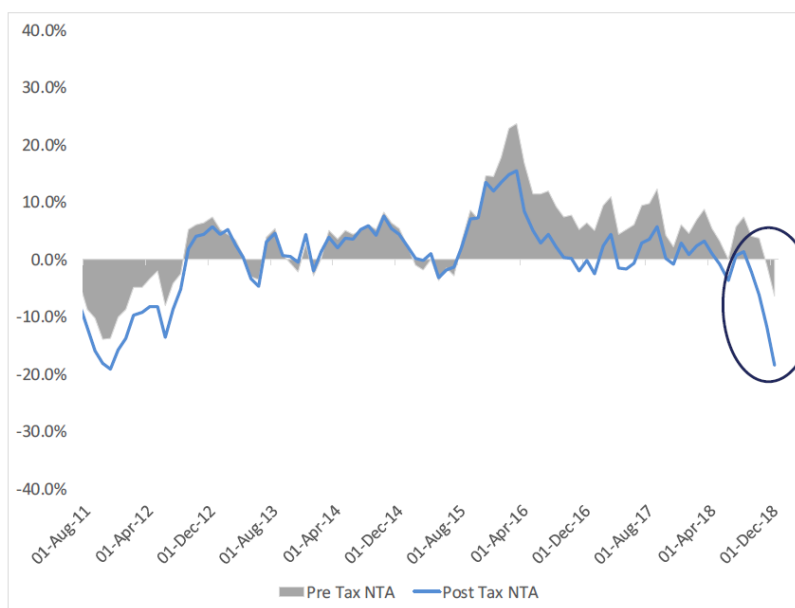
3



CADENCE
CAPITAL LIMITED



Discount and Premium to NTA



4



CADENCE
CAPITAL LIMITED



Top 20 Holdings – 31st December 2018

Code	Position	Direction	Currency	Holding
ARQ	ARQ Group Ltd	Long	AUD	12.1%
MQG	Macquarie Group Ltd	Long	AUD	4.7%
MNY	Money3 Corporation Ltd	Long	AUD	4.6%
NBL	Noni B Ltd	Long	AUD	4.5%
SHJ	Shine Corporate Ltd	Long	AUD	2.7%
EHL	Emeco Holdings Ltd	Long	AUD	2.4%
MAH	Macmahon Holdings Ltd	Long	AUD	2.2%
RMC	Resimac Group Ltd	Long	AUD	2.0%
CNI	Centuria Capital Ltd	Long	AUD	1.9%
NGI	Navigator Global Investments Ltd	Long	AUD	1.9%
SMR	Stanmore Coal Ltd	Long	AUD	1.9%
HLO	Helloworld Travel Ltd	Long	AUD	1.8%
BKL	Blackmores Ltd	Long	AUD	1.6%
LNG	Liquefied Natural Gas Limited	Long	AUD	1.0%
BOL	Boom Logistics Limited	Long	AUD	1.0%
MCP	Mcpherson's Limited	Long	AUD	1.0%
DOW	Downer EDI Ltd	Long	AUD	0.9%
MUA	Mitula Group Limited	Long	AUD	0.9%
IMD	Imdex Limited	Long	AUD	0.9%
GEM	G8 Education Ltd	Long	AUD	0.7%
Top Portfolio Holdings Net Exposure				50.8%

5



ARQ Group (ASX: ARQ)

Stock Profile

Long Position

EPS Growth	19%
PE	13x
PEG	0.7
OCF yield	12.4%
FCF yield	8.1%
Cash	\$24M
Debt	\$84M
Market Cap	\$240M

Fundamental Analysis

- Whilst the half year result was close to our numbers, earnings guidance was below market expectations, leading to a negative share price reaction
- The company continues to exhibit solid earnings growth
- The stock now has a \$320m EV with normalised EBITDA of around \$40m putting the company on approximately 8.0x times EV/EBITDA
- We believe this is a very low multiple for the earnings stream ARQ delivers
- Long term trend remains intact

6





ARQ Group– Long Position



7

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



CADENCE
CAPITAL LIMITED



Macquarie Group Ltd (ASX:MQG)

Stock Profile

Long Position

EPS Growth	15%
PE	14x
PEG	0.9
OCF yield	7.2%
FCF yield	6.8%
Cash	n/a
Debt	n/a
Market Cap	\$38.6B

Fundamental Analysis

- MQG continued to perform well for the fund through 2018, with management again delivering earnings ahead of market expectations
- The recent appointment of the head of Macquarie Asset Management as group MD illustrates the transformation in the business from deal-driven to annuity-style over the past ten years
- The company remains well placed to benefit from an uptick in global infrastructure spending
- With the stock rerating materially since our initial entry at \$24, our fundamental thesis has largely played out

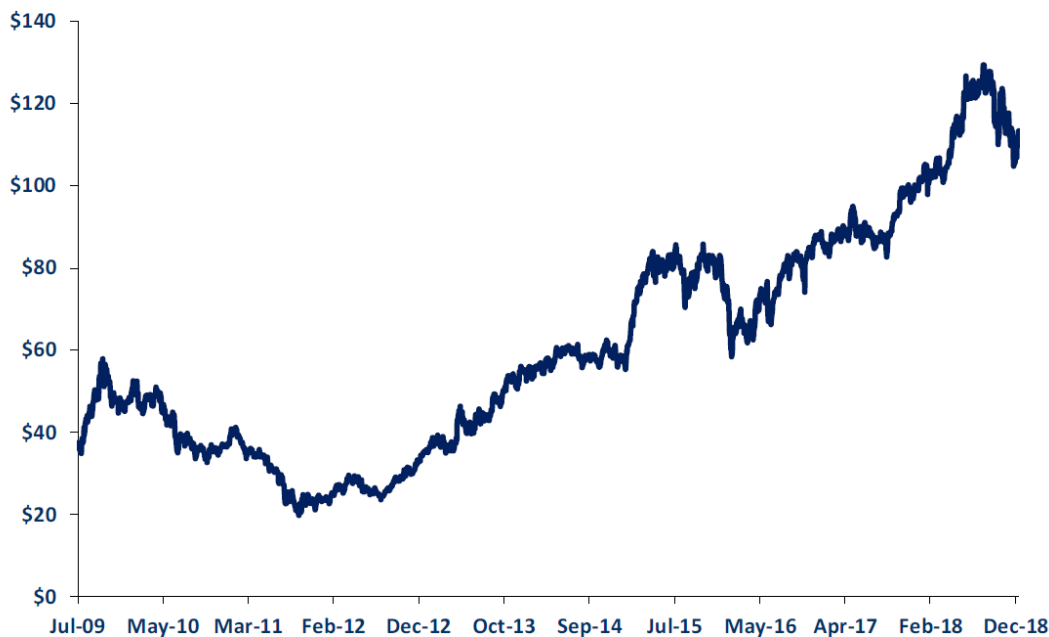
8



CADENCE
CAPITAL LIMITED



Macquarie Group Ltd – Long Position



9



Money3 Corporation Ltd (ASX:MNY)

Stock Profile

Long Position

EPS Growth	14%
PE	8.2x
PEG	0.4
OCF yield	6.3%
FCF yield	5.9%
Cash	\$46M
Debt	\$98M
Market Cap	\$273M

Fundamental Analysis

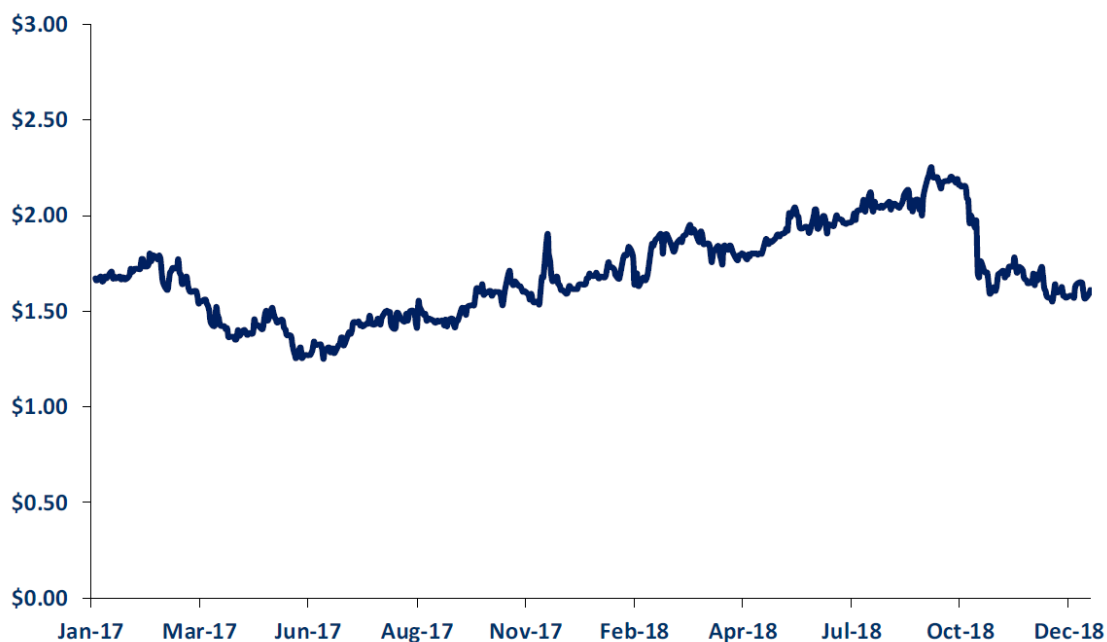
- Money3 is currently transforming itself from a general purpose lender to those who can't access typical banking facilities, into a singular and dedicated lender to the auto industry.
- MNY was caught up in the senate enquiry into payday lending, that saw the share price fall from \$2.25 to \$1.70. MNY is committed to exiting this business by 30 June 2019.
- MNY has the potential to grow EPS in excess of 15% pa for the next 3-5 years as it expands its auto loan book and renegotiates its wholesale funding deals.
- On a single digit PE with a strong balance sheet and excellent management we anticipate share price growth for many years to come.

10





Money3 Corporation Ltd– Long Position



11



Noni B Ltd (ASX:NBL)

Stock Profile

Long Position

EPS Growth	48%
PE	8.8x
PEG	0.2
OCF yield	13.1%
FCF yield	6.8%
Cash	\$58M
Debt	\$22M
Market Cap	\$257M

Fundamental Analysis

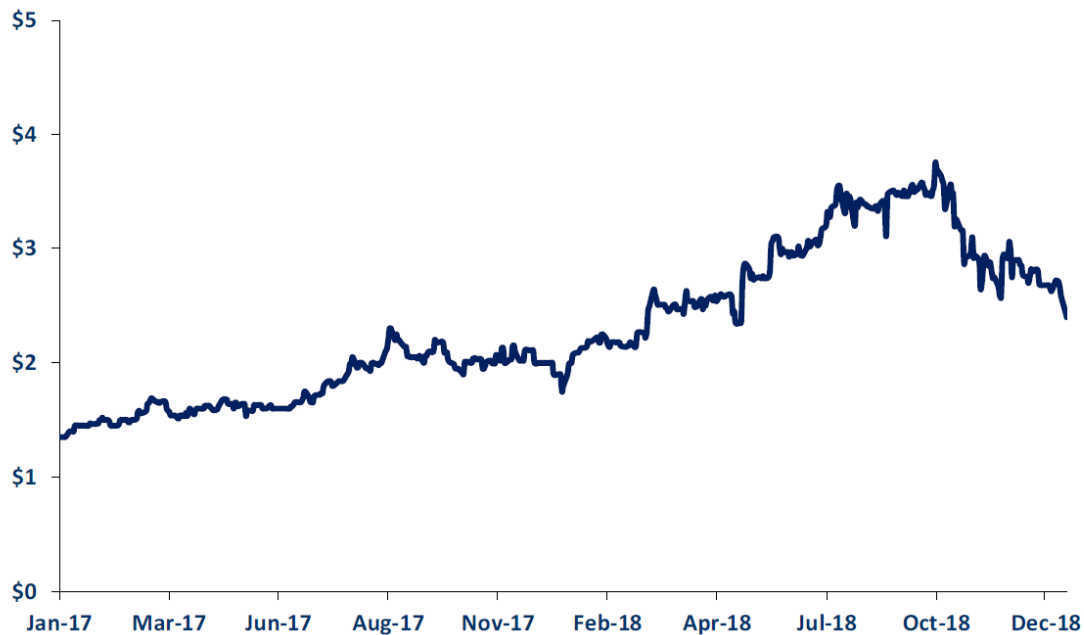
- Noni B is now the premier retailer for womens fashion in the over 40 category.
- NBL recently acquired the assets of Specialty Fashion, including Millers, Rivers etc. for \$31m funded via an equity issue at \$2.50.
- If management can execute successfully on the turnaround at Millers, we can see EPS of 36cps emerging over the next 2 years, up from 21cps on 2018, trading on a PE of just 8.8.
- NBL has no debt and generates good cashflow, with perhaps the best retail management in this space.

12





Noni B Ltd– Long Position



13

 CADENCE
CAPITAL LIMITED



Outlook

- Many global markets fell in the order of 20% in the fourth quarter, with investor optimism from earlier in the year turning to fear.
- Current investor concerns include trade war escalation, the impact of increasing interest rates and quantitative tightening, a potential 'hard Brexit', the U.S. government shut down, the upcoming federal election, the impact of the Royal Commission, etc.
- The fund increased cash levels through the fourth quarter, however we have begun to deploy a small proportion of these funds in early January as the market recovered.
- We expect a market recovery will be led by the most liquid and oversold stocks first, before filtering down to lower liquidity stocks.
- Naturally the Cadence process will scale us into and out of our positions as the price action confirms our fundamental view.
- We have recently launched the Cadence Opportunities Fund, a fund that will benefit in times of volatility with shorter term trends

14

 CADENCE
CAPITAL LIMITED



Keep up-to-date with Cadence

- Make sure you are registered to receive our monthly newsletter, webcasts and periodic results
- To register visit www.cadencecapital.com.au/register-for-FREE-newsletter
- Read our articles

15



CADENCE
CAPITAL LIMITED



Disclaimer

The information contained in this report has been prepared with all reasonable care by Cadence Asset Management Pty Ltd and is of a general nature only. It is provided for information purposes only and should not be construed as an offer or solicitation. Nothing contained in this document constitutes investment, legal, financial, business, tax or other advice. It should not be relied upon as the sole basis for making an investment decision, nor should a decision be made until the risks of the investment are fully understood. Cadence Asset Management Pty Ltd assumes no responsibilities for errors, inaccuracies or omissions in this summary. The information is provided without warranty of any kind. Past performance is not indicative of future performance. Investors may not get back the full amount originally invested.

16



CADENCE
CAPITAL LIMITED