

Monash Absolute Investment Company Limited

Monash Absolute Investment Company Limited (ASX: MA1)
March 2019 End of Month Update

1 April 2019

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 31 March 2019 the NTA Pre-Tax was \$0.9728.

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.

Monthly Commentary

For the month of March, the pre-tax NTA was up 2.16% (after fees) compared to the S&P/ASX200 up 0.73% and the Small Ords, which was down -0.12%.

It's been a strong start to the calendar year with the portfolio up 13.16% (after fees) compared to up 10.89% and up 12.59% for the two indices, respectively.

We had strong performances from a range of stocks, namely Afterpay (ASX: APT), EML Payments (ASX: EML), Nearmap (ASX: NEA), and MNF Group (ASX: MNF). All of these stocks had gains ranging between 8% and 13%, largely due to the market's continued positive reaction to their recently reported results.

However, the key positive contributor was once again Leigh Creek (ASX: LCK) which rallied 52% during the month. We discussed LCK in the previous Monthly Update. However, it warrants further discussion given that it remains vastly undervalued by the market, and its share price is likely to be volatile.

Company at a Glance 31 March 2019

ASX Code	MA1
Portfolio Size	\$43.2m
Share Price	\$0.780
Shares on Issue	44.3m

Estimated NTA (unaudited) 31 March 2019

Estimated NTA Pre Tax	\$0.9728
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Return Estimate to 31 March 2019

	NTA Pre Tax
1 Month	2.16%
CYTD	13.16%
6 Months	-2.87%
FYTD	-0.07%
1 Year	0.15%
Since Inception p.a. (April 2016)	0.72%

Portfolio Structure 31 March 2019

Outlook Stocks (Long)	21 Positions	85%
Outlook Stocks (Short)	1 Position	-3%
Event, Pair and Group (Long)	3 Positions	13%
Event, Pair and Group (Short)	1 Position	0%
Cash		4%
TOTAL		100%
Gross Exposure		102%
Net Exposure		96%

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 her

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Leigh Creek (ASX: LCK)

The big news for LCK this month was that it received its maiden 2P reserve certification¹. This is hugely important, as this certification is “bankable” and thus will allow the project to move into the commercialisation phase. LCK’s initial 2P reserve certification is 1,153 PJ, which makes it the largest uncontracted 2P gas reserve in the East Coast Gas market. It is initial because the reserve only accounts for 1 of the 3 coal seams in LCK’s Petroleum Exploration License 650. As such, LCK’s 2P reserves will increase significantly over time.

So what does all of this mean? The first point is that this is a very large 2P reserve. The 2 charts below put it into context. It is the 7th largest in the East Coast market held by any company, with all of the 6 larger 2P reserves contracted to LNG export. The 2P in the Telford Basin (100% owned by LCK) is similar in size to the current 2P reserves in the Copper Basin and is larger than the Otway, Bass, Gunnedah, Clarence-Moreton, Sydney and Galilee Basins combined. It truly is a very large gas reserve, and obviously very material to the LCK share price.

LCK has a number of options for the commercialisation of the project: 1) sale of synthetic natural gas via a pipeline into the Australian East Coast market; 2) manufacturing ammonia-based fertilizer product (Urea); or 3) a combination of both as the reserve is so large it can easily do both.

LCK does not have the balance sheet to develop this asset on its own. This will be resolved through a Joint Venture / Farm-in Partner together with some modest capital raisings along the way. LCK has confirmed that it is in active discussions with both financial and strategic partners to execute these strategies. There are many moving parts in all of this, which makes deriving a definitive valuation problematic. What will the syngas transfer price into the Joint Venture be? What will the LCK ownership of the Joint Venture be? These two issues are interrelated. Which of the three options will LCK take? What is the timing etc...? However, any way you cut it, our analysis shows that LCK remains vastly undervalued by the market.

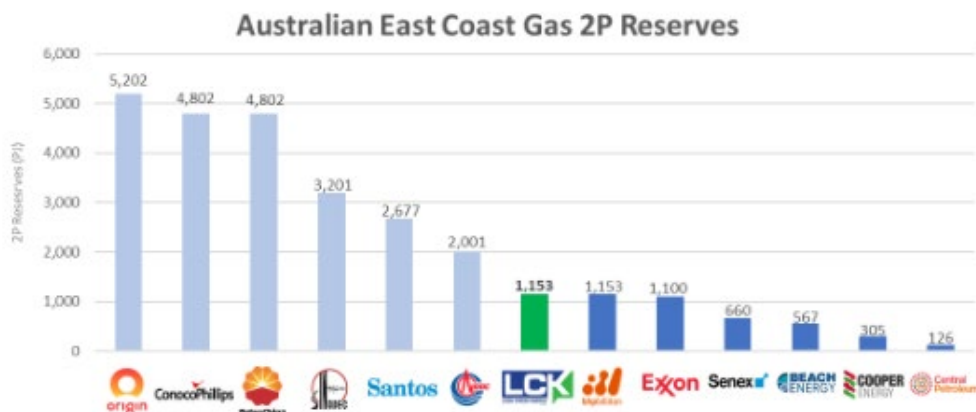
It is estimated that LCK can produce syngas at a cost of \$1/GJ. This is the feedstock that is used to produce Urea fertiliser, or it can be processed into pipeline quality gas at a further cost of \$4-5/GJ. As a point of comparison, pipeline quality natural gas is currently sold for around \$10/GJ in Australia.

The production of Urea is particularly attractive as an option because the cost of the feedstock is so low, and it doesn’t need to be further modified. This compares to the more usual process for Urea production, which takes expensive pipeline quality natural gas and converts it into Urea feedstock gas. We would also note that Australia imports almost all of its Urea, and from an environmental perspective, there is an arguable positive, as it will see LCK convert coal into fertiliser.

Whether LCK ultimately produces Urea or pipeline quality natural gas, the cost of production is so low that it will generate very attractive rates of return regardless of which option is chosen. It will come down to the negotiations with the various potential partners, which places LCK in a strong position as it has the 2P reserves that everyone needs.

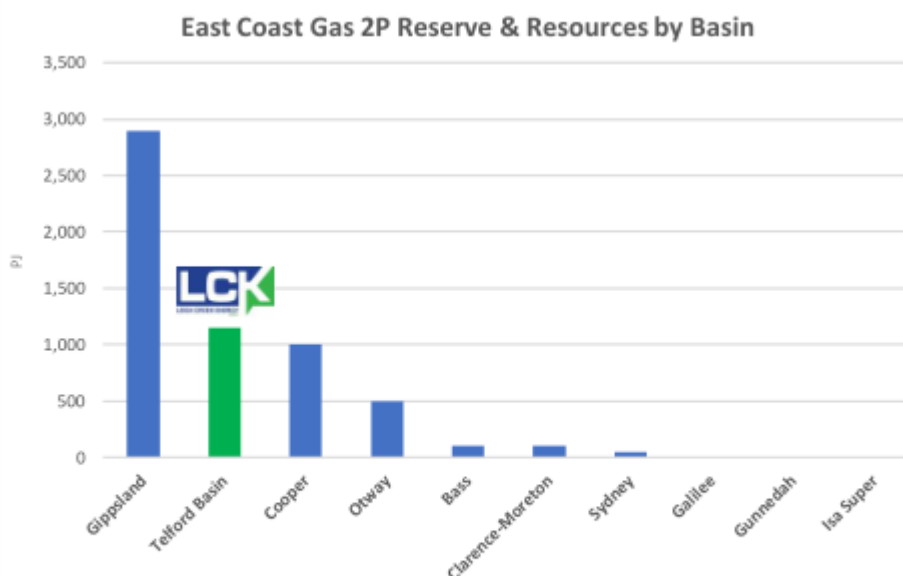
¹ <https://www.asx.com.au/asxpdf/20190327/pdf/443t28kl9nsvhw.pdf>

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Source: Australian Energy Regulator 2018

NB: Light blue colour denotes that gas reserves for Origin Energy, ConocoPhillips, PetroChina, Sinopec, SANTOS and CNOOC are contracted to LNG export projects



Quantity of reserves (PJ) and resources (PJ) in the East Coast Gas Market as of June 2018. Excludes Surat and Bowen Basins.

Source: ⁽¹⁾ Australian Consumer and Competition Commission - Gas inquiry, 2017–2020, Interim report, December 2018 (data obtained from gas producers)

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