

# QV Equities Investor Update

April 2019



**IML** INVESTORS  
MUTUAL LTD

# Agenda

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IML State Manager

- The purpose of QVE

Daniel Moore and Michael O'Neill - Senior Analyst & PM

- Time for caution....being selective is key

Simon Conn - Senior PM

- QVE portfolio positioning and key holdings

# QV Equities Limited

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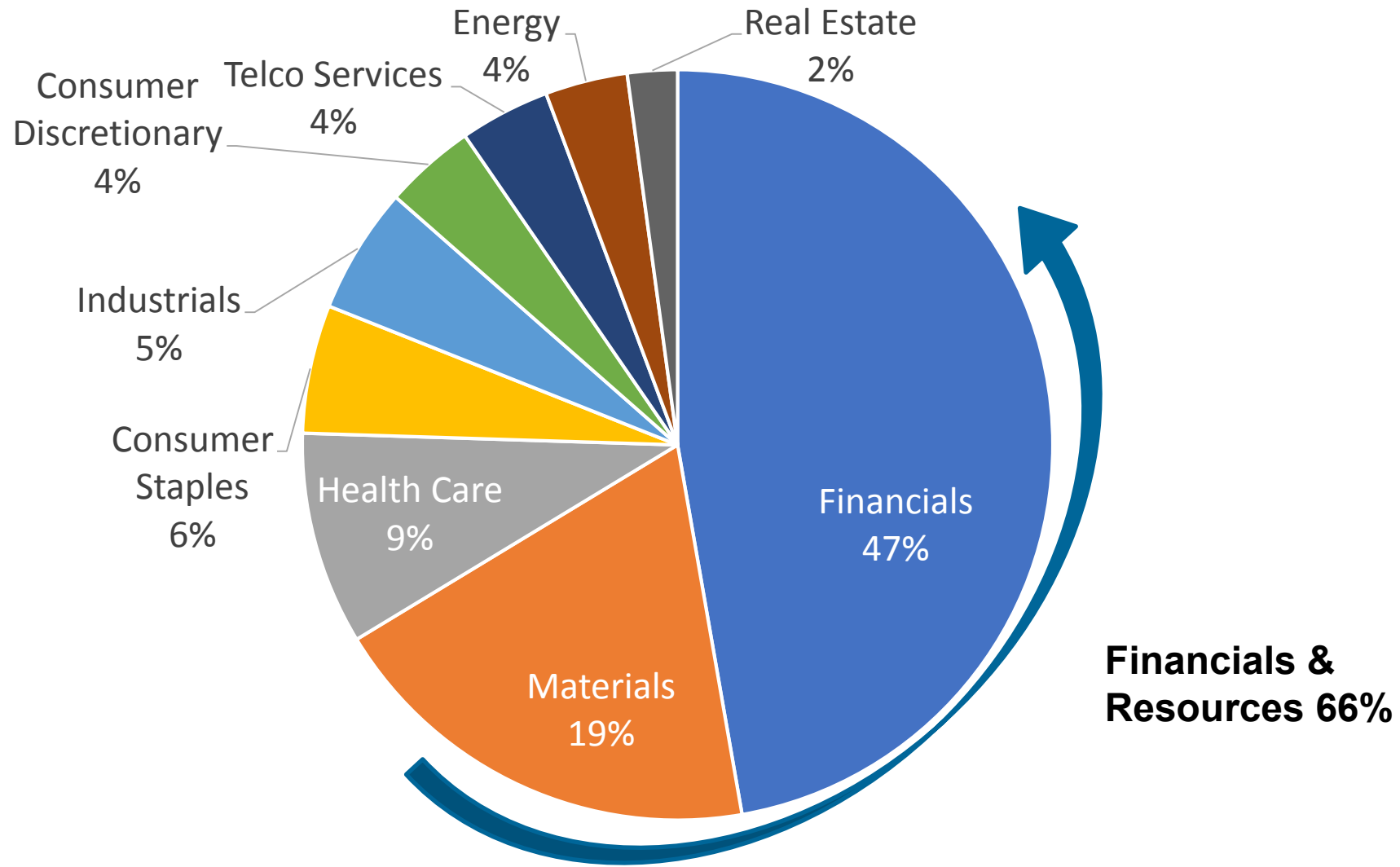
- ❑ Listed 22 August 2014
- ❑ Managed by Investors Mutual
- ❑ Focused on Ex-20 stocks
- ❑ Experienced Board with independent majority
- ❑ Focus on long-term capital growth & income

# About IML

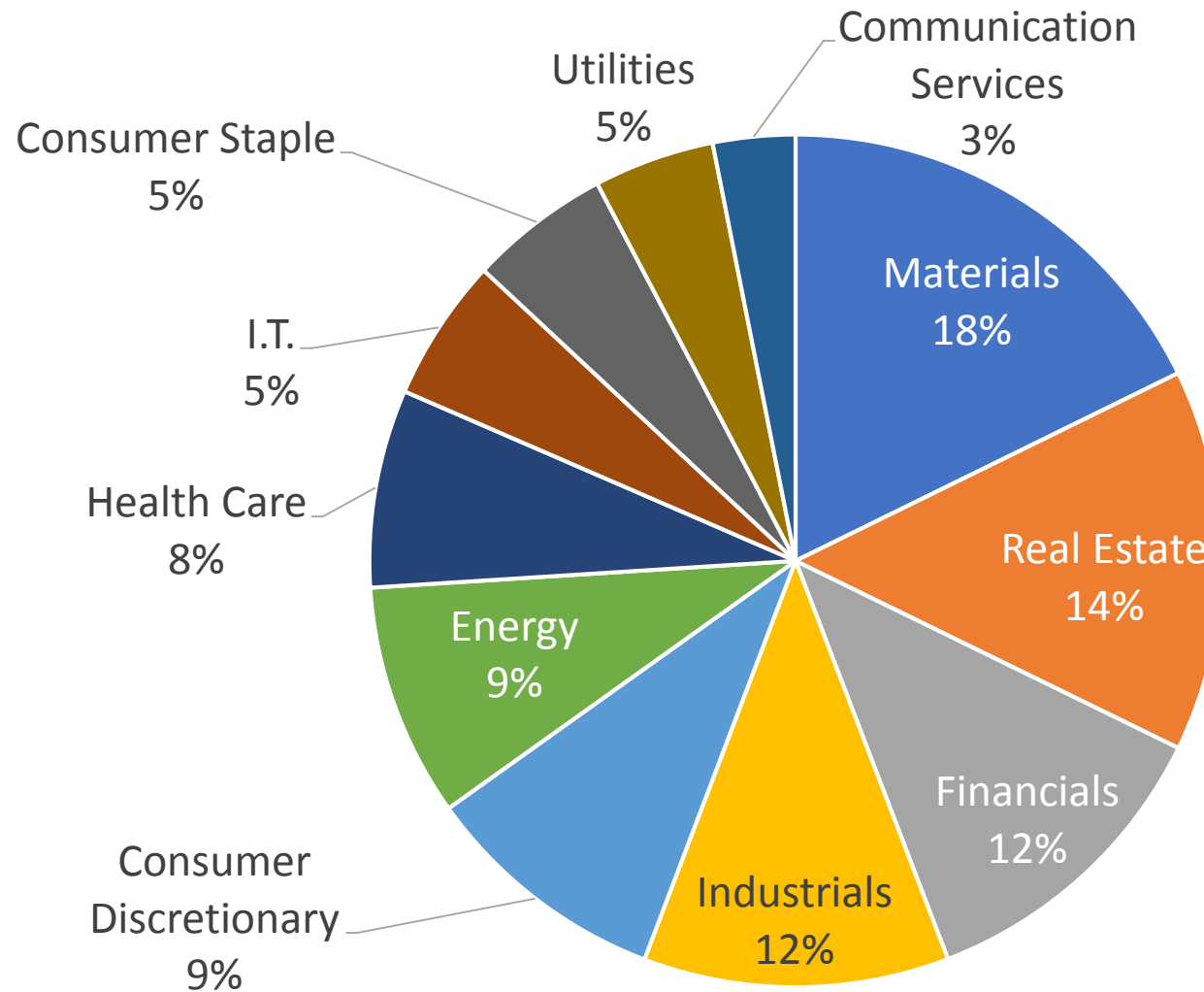
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- ❑ Boutique manager established in 1998
- ❑ Over \$9b FUM – with a focus on retail
- ❑ Disciplined 'true to label' Value & Quality style
- ❑ Consistent performance and outcomes over the past 20 years
- ❑ Well resourced investment team with experienced leadership

## ASX 20- Dominated by Financials & Resources



## ASX ex 20 - More diverse sectors



Source: Factset as at 28 February 2019

# Why focus on an Ex 20 managed portfolio?

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- ❑ More diverse in terms of industry sectors
- ❑ Less researched opportunities
- ❑ Investors typically underweight in this segment
- ❑ Solid yields on offer
- ❑ IML has a long record of significant value add in this segment

*Past performance is not a reliable indicator of future performance. The value of your investment can move up or down*

**Time for caution...being selective is key**



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Equities Ltd.

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## Retail investor needs:

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The portfolio aims or seeks to provide the following:

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

*Capital is not guaranteed. Capital growth and income objectives are made on a reasonable basis and are not a guarantee of actual outcomes or performance*

## Investment Philosophy: focus on quality and value

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*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.

## Patience and discipline required as an investor

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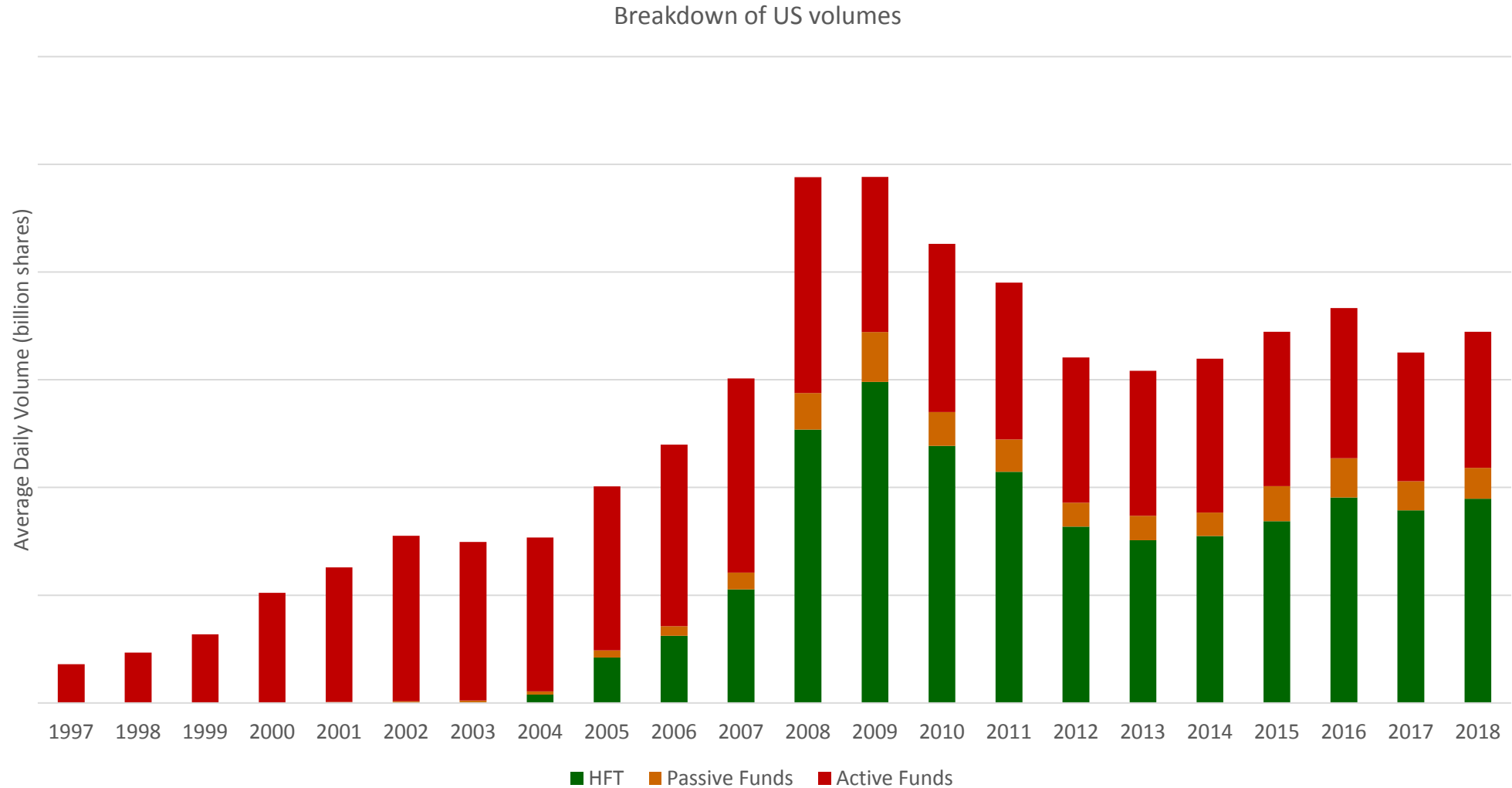
Market	Investor
Short term focus	Long term focus
Momentum driven	Valuation driven
Upgrade / Downgrade mania	Disciplined focus on 'quality'
Daily information flow	In-depth research

## QVE portfolio lagging over recent periods

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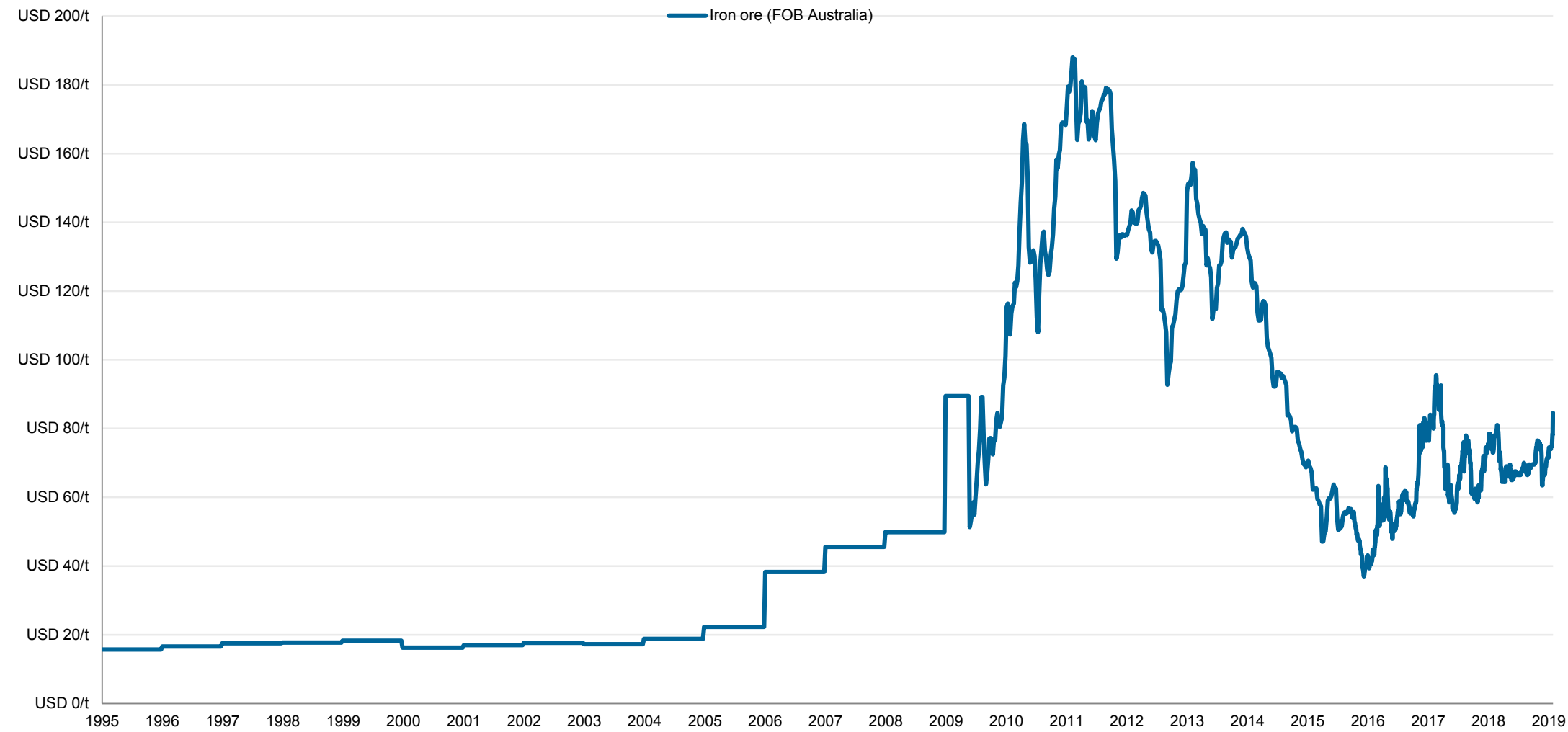
- ❑ “Momentum” based market
- ❑ Resources sector strong
- ❑ Industrials sector lagging
- ❑ Significant gains in momentum/concept stocks
- ❑ A few disappointing performers in the portfolio

# The changing nature of who's participating in markets



Source: Credit Suisse; As at 31 December 2018

# Iron ore prices



Source: IRESS;  
As at 30 January 2019



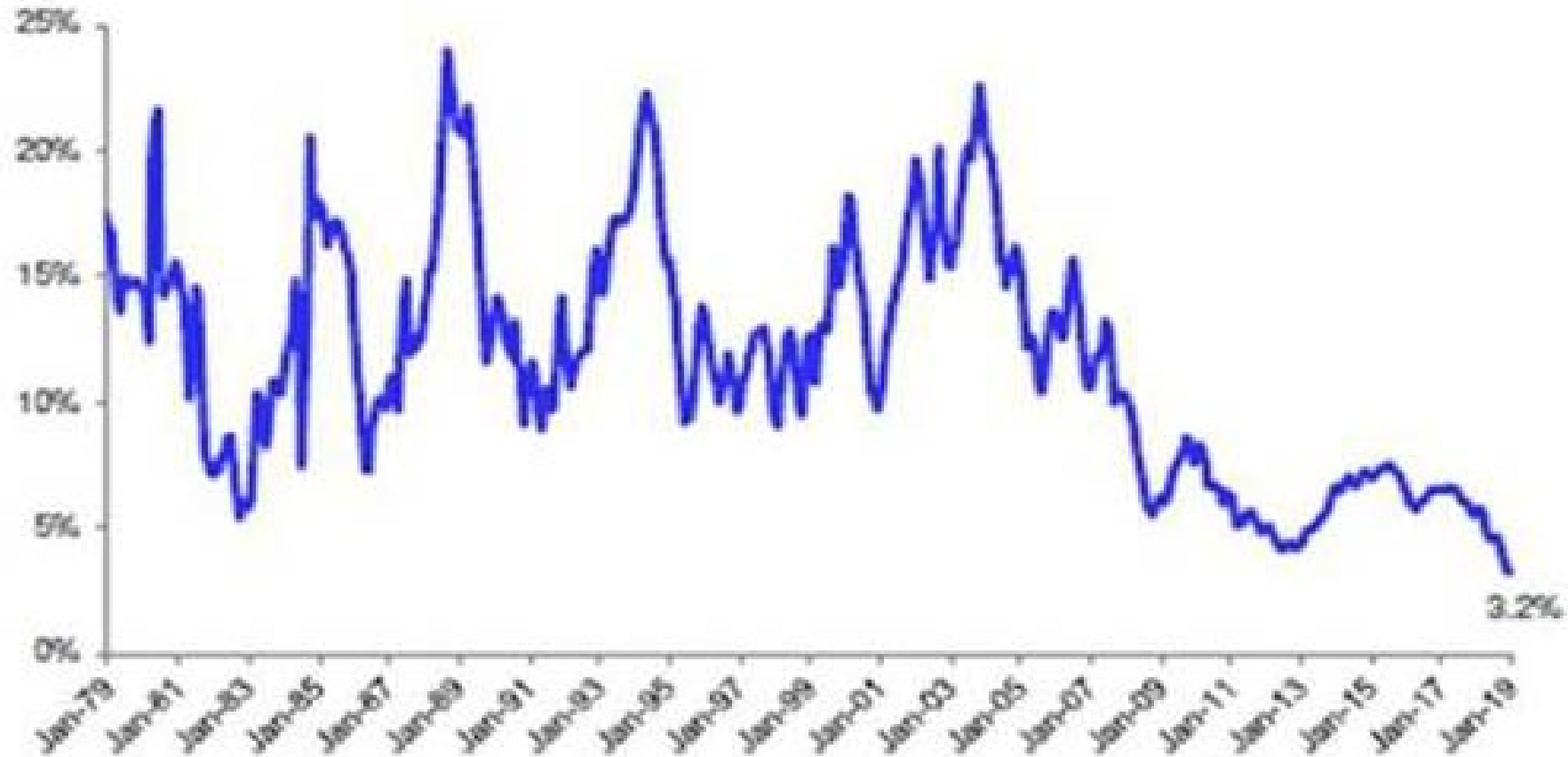
## Current environment

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Interest rates low	High debt levels
Unemployment and inflation low	Election uncertainty
Population growth	Chinese slowdown (FAI)
Infrastructure boom	Trade wars, Brexit
Commodity prices strong	Property price falls

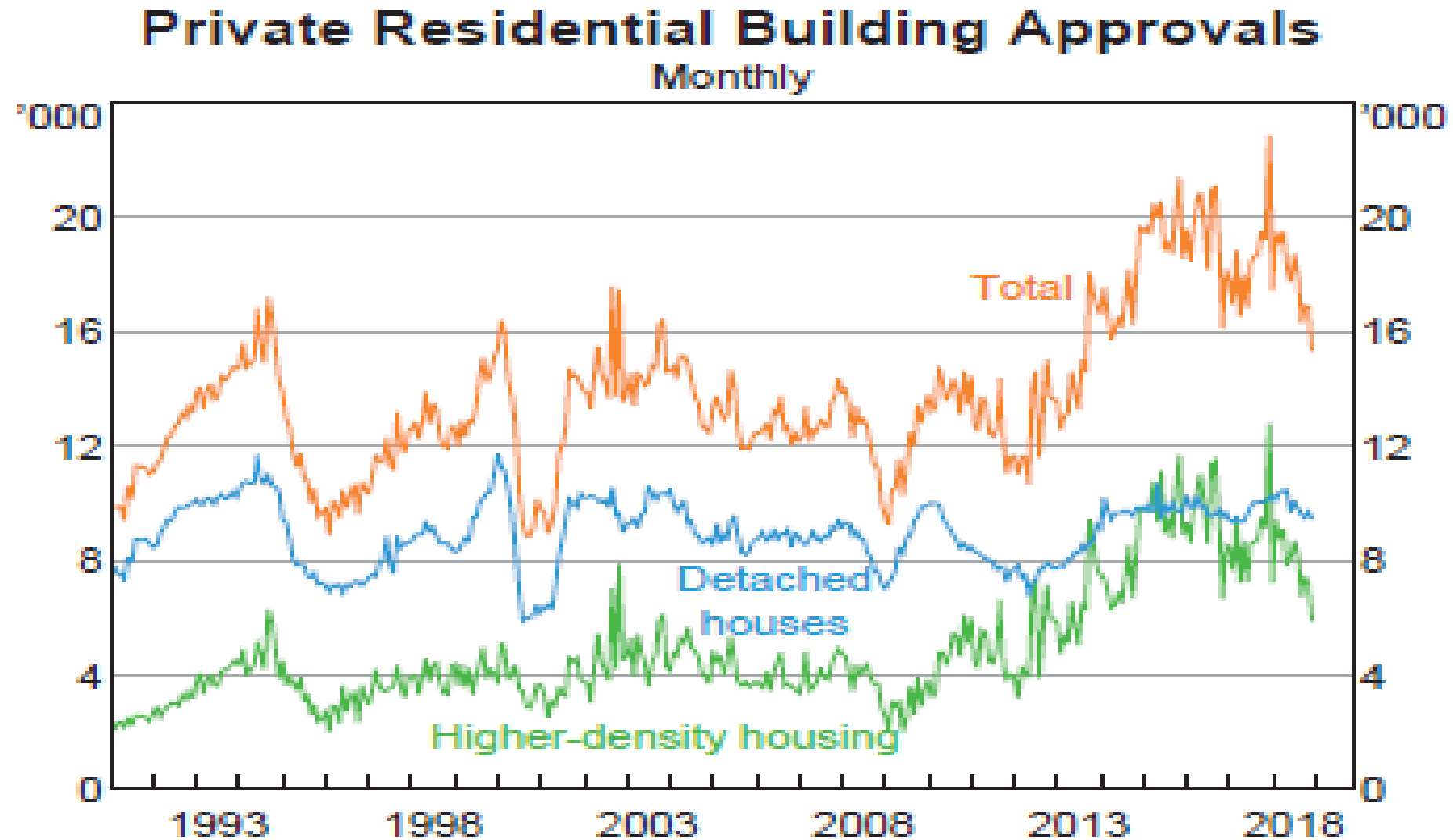
# Housing credit

Housing credit growth (3m annualised)...lowest on record





# Housing approvals



Source: RBA Chart Pack February 2019; ABS

## Time for caution; however opportunities are appearing

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- ❑ Global growth is slowing
- ❑ Interest rates – inflation remain low
- ❑ Signs of excesses in markets appearing
- ❑ Value emerging in some sectors
- ❑ Being selective and looking beyond the short term will deliver results over time

☐ Technology stocks

☐ REITs

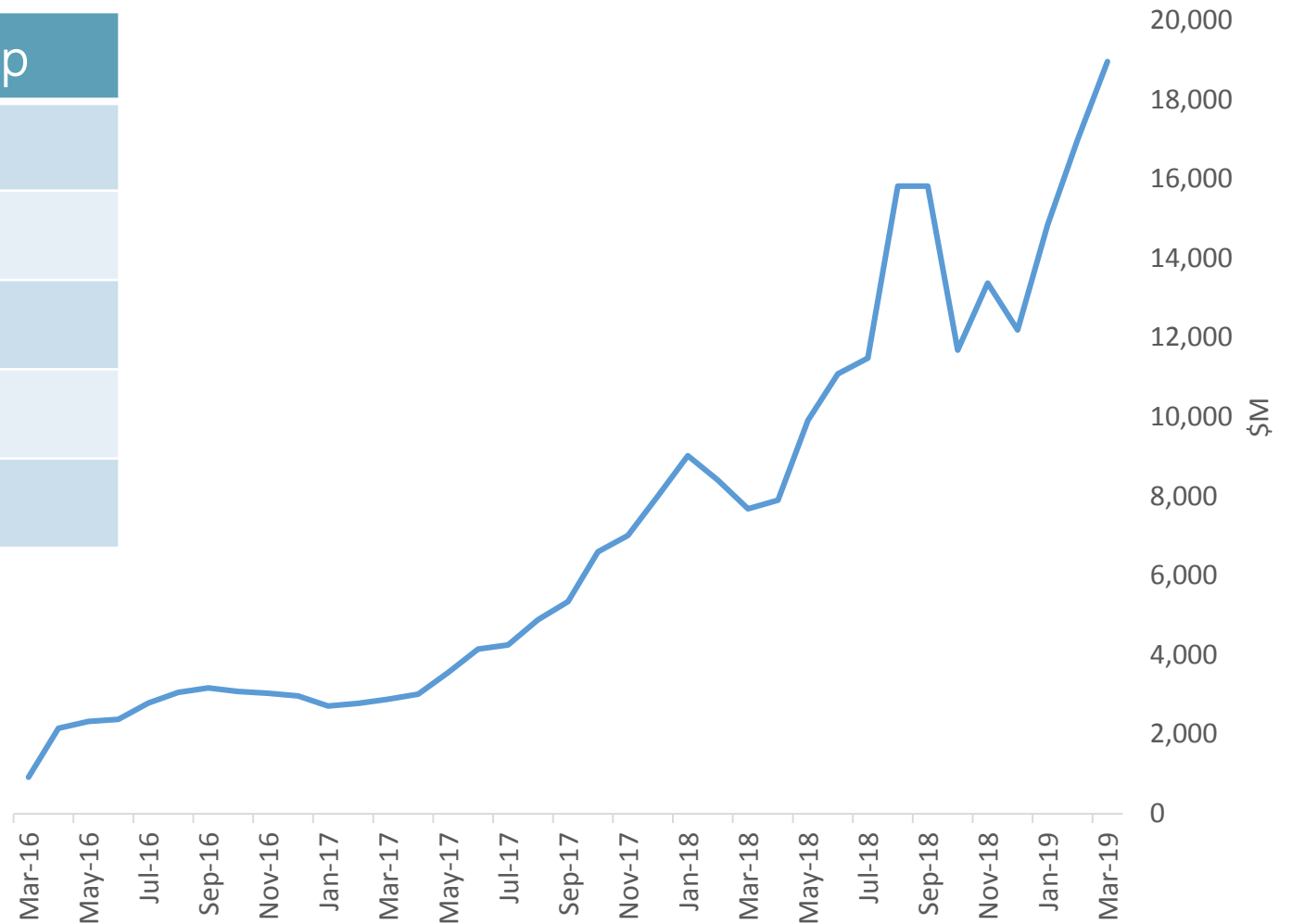
☐ Iron ore stocks

☐ High growth 'concept' stocks

...time to be selective

## The IT momentum trade: 2016-19

	Market Cap
Wisetech	\$7.1bn
Appen	\$2.7bn
Afterpay	\$4.7bn
Altium	\$4.2bn
Total	\$18.7bn

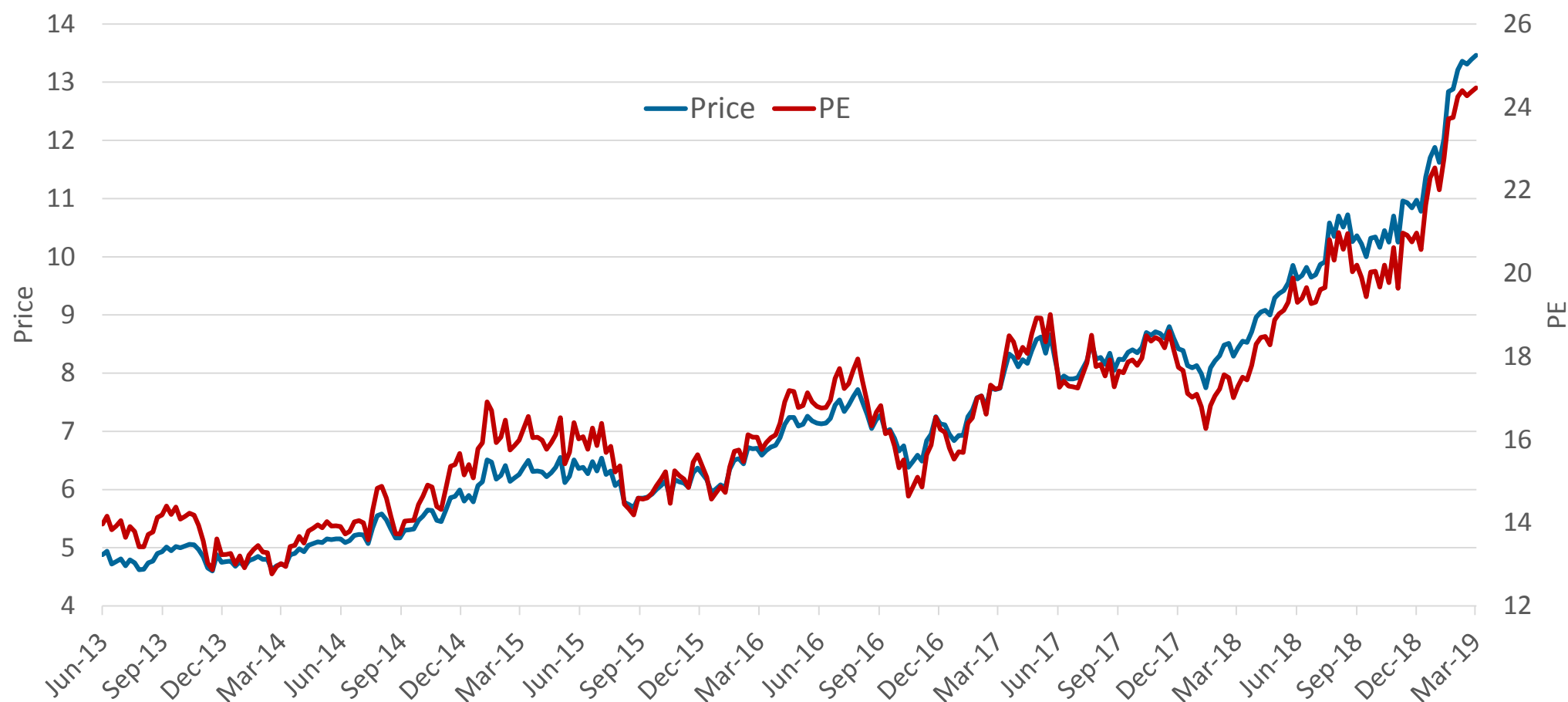


# Valuations – Reality check

	FY19 EBITDA \$m	NPAT \$m	Market Cap \$m	EV \$m	FY19 EV/EBITDA (x)	FY19 P/E (x)	FY19 Yield (%)
WiseTech Global	105	55	7107	7100	67.6	129.2	0.2%
Event Hospitality	240	114	2177	2309	9.6	19.1	4.0%
GWA	81	55	890	966	11.9	15.9	5.5%
Integral Diagnostics	52	23	402	519	10.0	16.8	3.8%
Pact Group	235	95	970	1709	7.2	10.3	0.0%
Southern Cross Media	162	83	859	1138	7.0	10.4	6.7%
<b>Total</b>	<b>770</b>	<b>370</b>	<b>5298</b>	<b>6641</b>	<b>9.2</b>	<b>15.4</b>	<b>3.9%</b>

*Past performance is not a reliable indicator of future performance*

# Goodman Group share price & PE



	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Investment	82%	71%	69%	65%	60%	57%	49%	35%	32%
Management	10%	10%	11%	14%	14%	14%	16%	23%	27%
Development	8%	19%	20%	21%	26%	29%	35%	42%	41%

Source: FactSet & Goodman reports;  
As at 29 March 2019

## Themes of the past- Fads come and go

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- ❑ Dot.com boom of 2000/2001
- ❑ LPT boom of 2005 – 2008
- ❑ Resources/ mining services boom 2005-2008

*The latest instalment...*

- ❑ IT sector: 2016 - 19

- ☐ Investing in companies with **sustainable earnings** and **dividends**
- ☐ Not capitalising high spot prices or development profits
- ☐ Investing in companies with a strong franchise and realistic plan for the next  
3-5 years
- ☐ Cautious cyclical



# Financials

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- ❑ Slowdown in lending and further fee cuts
- ❑ Competition impacting margins
- ❑ Bad debts at cyclical lows
- ❑ Higher regulatory compliance and remediation costs
- ❑ Higher capital requirements for NZ

## Stock Market Corrections (Lesson 17)

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- ☐ Corrections are unpredictable and inevitable
- ☐ Invest in quality stocks for the long term
- ☐ Be diversified
- ☐ Never be over geared
- ☐ Take advantage of indiscriminate selling

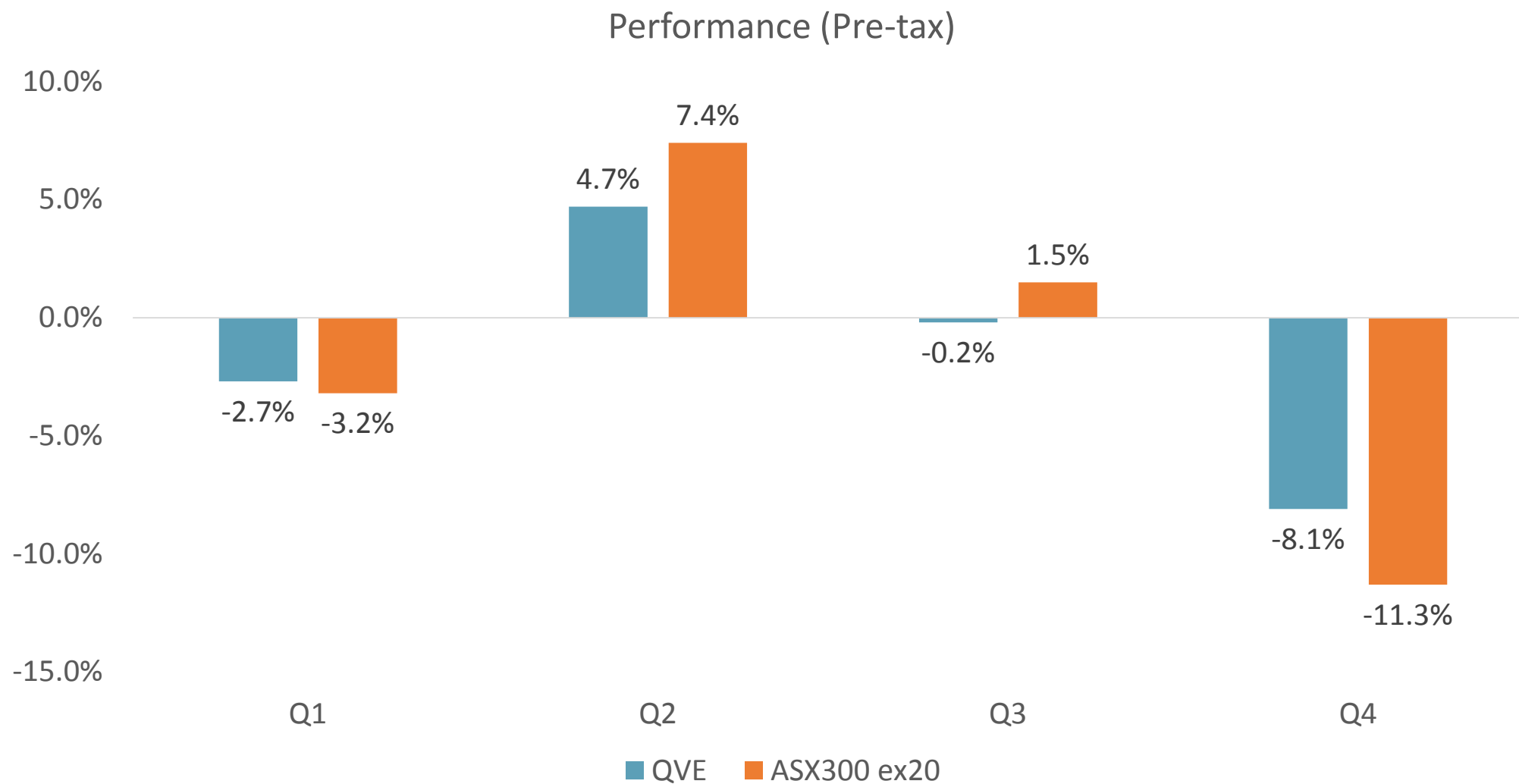
*When sanity prevails good quality companies with real earnings will recover*

# QVE Portfolio update



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## CY 2018 – a volatile year



*Past performance is not a reliable indicator of future performance*

*Source: NTA Quarterly reports 2018  
As at 31 December 2018*

- ❑ Focus on good quality mid and small cap names and stick to fundamentals
- ❑ Smalls/mid cap sector more prone to fads/bubbles/hype
- ❑ Discipline required in particular in this segment
- ❑ Yield works in this sector – key component of total returns

## Portfolio positioning - company specific initiatives

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Company specific initiatives - examples	
Cost-outs →	Pact Group, Clydesdale Bank
Acquisitions →	Integral Diagnostics, Amcor
Contracted growth →	Genesis Energy, Shopping Centres Australasia
Market share gains →	GWA, Tabcorp
Restructuring →	Nine Entertainment, Caltex

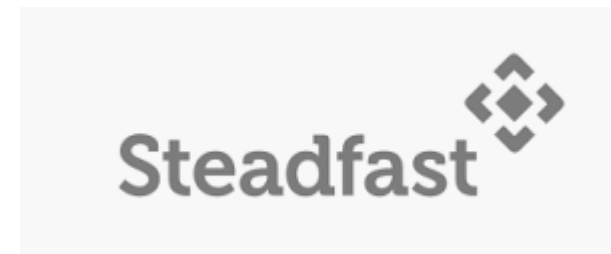
KEY EQUITY INVESTMENTS	ASX Code	Weight
Amcor	AMC	4.5%
Crown Resorts	CWN	4.5%
Caltex Australia	CTX	4.3%
Spark Infrastructure	SKI	4.0%
Sonic Healthcare	SHL	3.9%
Aurizon	AZJ	3.7%
Steadfast	SDF	3.6%
Orica	ORI	3.4%
Pact Group	PGH	3.3%
GWA	GWA	2.9%

## QVE Portfolio – 12 month positive contributors

☐ Ruralco



☐ Steadfast



☐ Amcor



☐ Genesis Energy



☐ Southern Cross Media



☐ Shopping Centres Australasia



☐ Contact Energy



Source: QVE as at 28 February 2019



## Disappointing performers

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❑ Bank of Queensland

❑ Clydesdale Bank

❑ Pact Group

## QVE portfolio activity- Recent buys

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Recent buys
Nine Entertainment
Crown Resorts
Regis Healthcare
Tabcorp
Southern Cross Media
Origin Energy
Sydney Airport

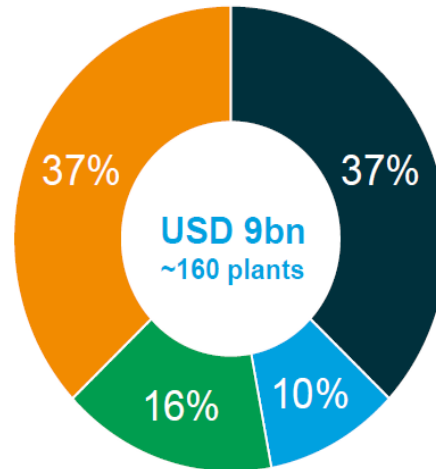
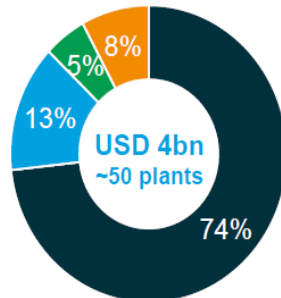
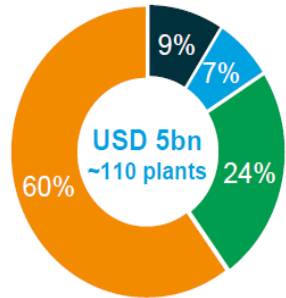
## QVE portfolio activity- Recent sells

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Recent sells/trim
Fletcher Building
Fairfax Media
Ansell
AGL Energy
Contact Energy

*As at 28 February 2019*

- ❑ One of the largest packaging companies in the world
- ❑ Operates 200 plants, in 43 countries
- ❑ 95% of sales to consumables (food, beverages, healthcare)
- ❑ Proposed Bemis transaction



<sup>2</sup> Amcor management estimates based on Bemis revenues for the year ended 30 June 2018



## Amcor and Bemis: Creating the global leader in consumer packaging



Global leader in  
Flexible Packaging



Leader in Rigid  
Containers in the  
Americas region



Global leader in  
Specialty Cartons



Sizeable player in  
global Closures

**~US\$13bn**  
COMBINED SALES

**~US\$2.1bn**  
COMBINED PBITDA<sup>1</sup>

**>US\$1.2bn**  
COMBINED CASH FLOW<sup>2</sup>

<sup>1</sup> Based on combined US GAAP Adjusted PBITDA for FY18 and includes an expected US \$180 million of annual pre tax cost synergies.

<sup>2</sup> Based on combined operating cash flow (before capital expenditures, acquisitions and dividends) for the year ended June 30, 2018.

- ❑ Owns monopoly lotteries and retail wagering licenses in Australia
- ❑ Recurring earnings, which are resilient through the economic cycle
- ❑ Strong growth potential from transition to online lotteries sales
- ❑ Dividend yield of ~5% fully franked



## Licensee Brands

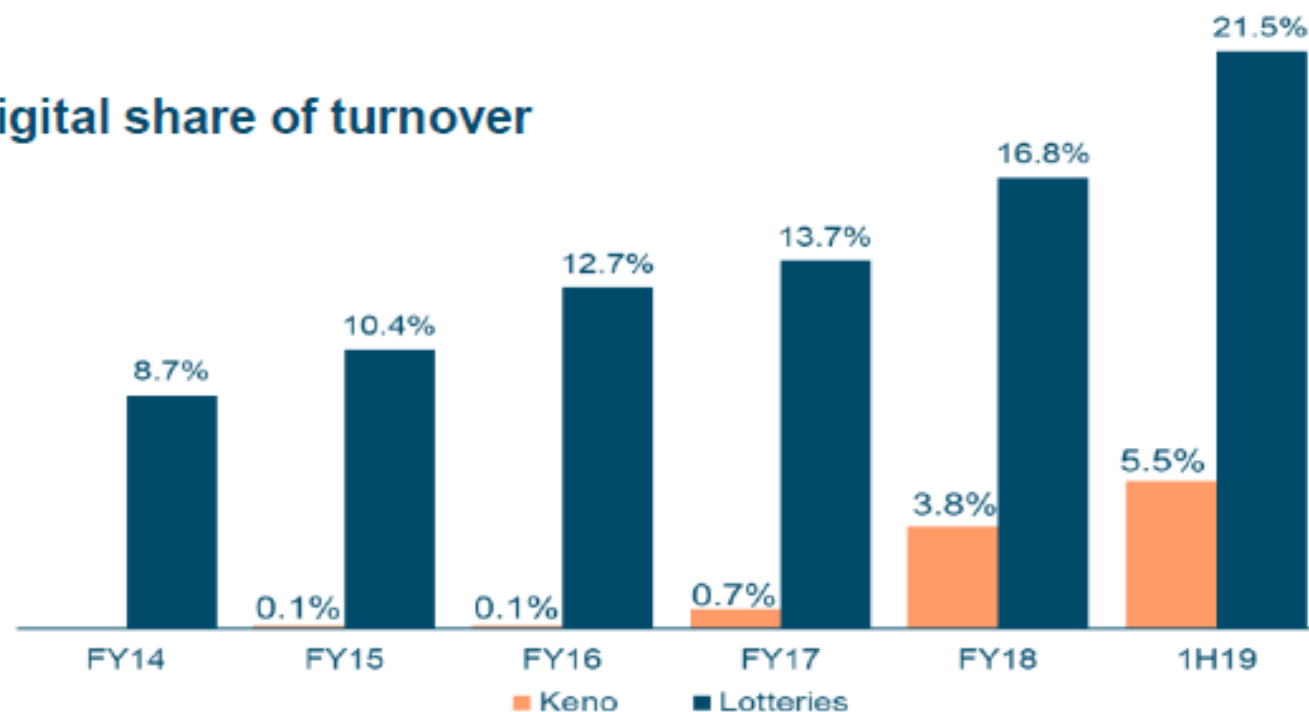


## Game Brands



Source: IML estimates & Tabcorp;  
As at 20 March 2019

## Digital share of turnover



Source: Tabcorp strategy day & 1H19 presentation;  
November 2018 & February 2019



□ Levelling of the playing field with Point of Consumption Tax

□ Powerball changes

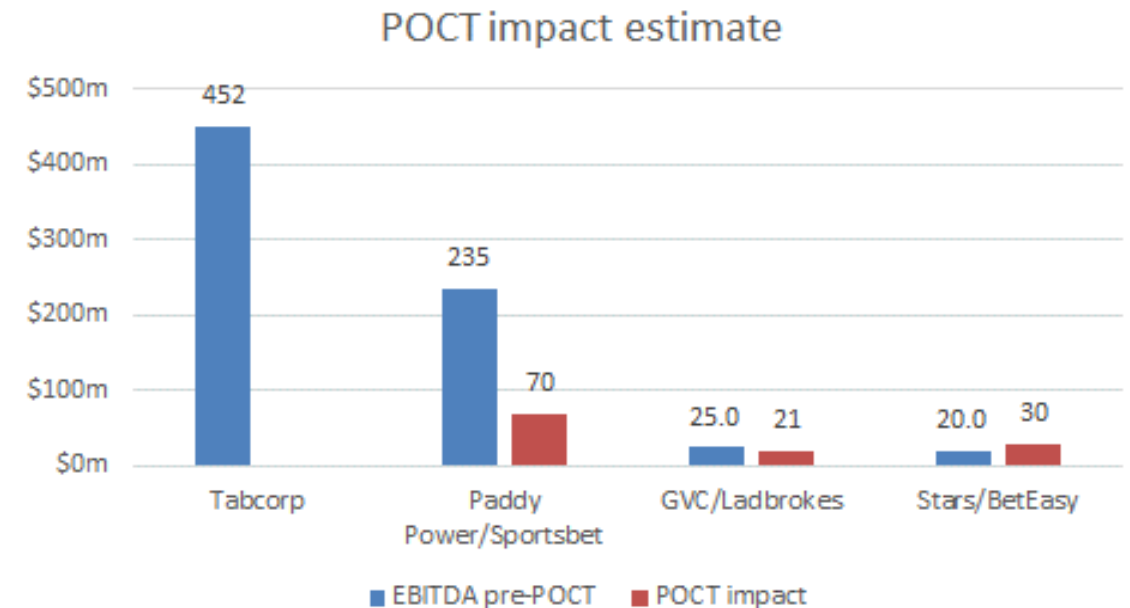
- 30% price increase
- New rules mean higher frequency of large jackpots

□ Set for Life

- New game innovation targeted at Millennials

□ Synergies with Tatts

- \$130m - \$145m of savings from integration



Source: IML estimates & PaddyPower Annual report;  
As at 20 March 2019

# Stock Update

- Southern Cross Media:

- ☐ Metro radio – one of three national FM networks
- ☐ Regional radio – only scale player
- ☐ Regional TV – Ch9 affiliate in most regional areas

H1 EPS	DPS	PE	Yld
+10%	Flat	10.4	6.7% ff



- GWA:

- ☐ leading designer & supplier to Bathrooms & Kitchens market
  - Methven acquisition strengthens portfolio

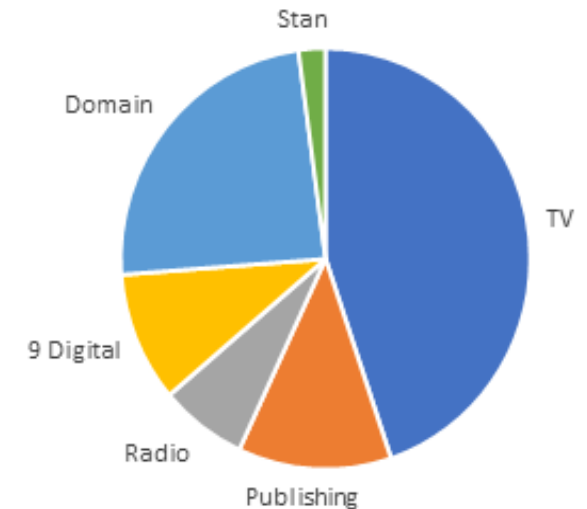
+7.4%	+5.9%	15.9	5.5% ff
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Source: IML  
As at 29 March 2019

- ❑ Fairfax Media merger completed December 2018
- ❑ Merger synergies of at least \$65m p.a.
- ❑ Revenue synergies from cross-selling
- ❑ Target of >60% digital earnings by 2022

FY20F EBITDA split



Source: IML & Nine Entertainment;  
As at 29 March 2019

Free-to-air TV remains the pre-eminent mass market vehicle for brand advertising

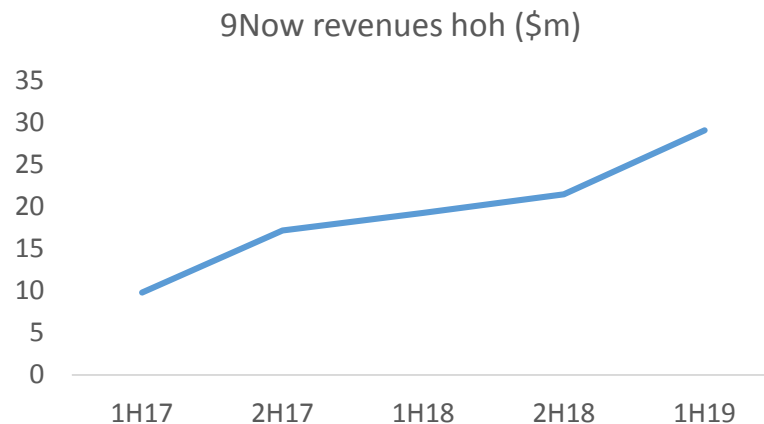
□ Since 2013, audience CAGR -5% vs TV ad spend down 1% p.a.

Other video properties performing strongly

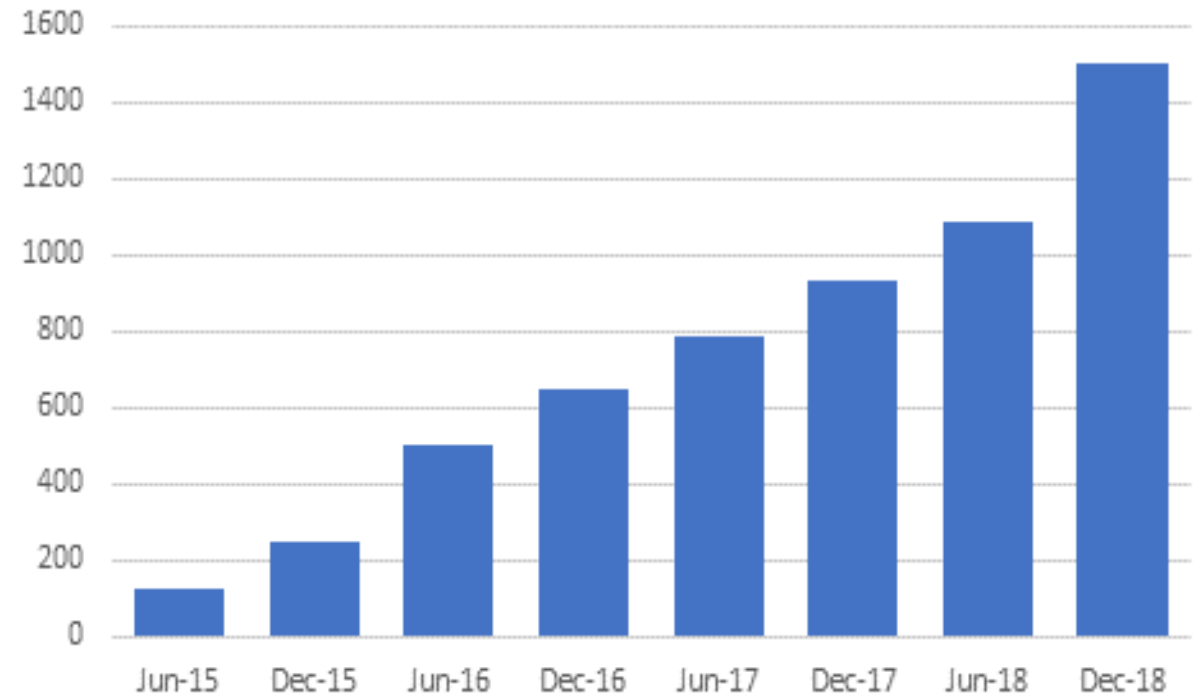
□ Stan 1.5m subs, forecasting 1st profit Q4'19

□ 9Now streaming ad revenue +51% in H1'19

➤ Significant opportunity in cross-promoting Domain



Stan active subscriber base (000s)



Source: IML & Nine Entertainment;  
As at 29 March 2019

- ❑ Attractive valuation: FY20 PE 11.2x, yield 5.8%
- ❑ Current portfolio offers optionality
- ❑ Asset sales (ACM, Stuff NZ)
- ❑ Acquisition of MRN and/or Domain minorities
- ❑ Potential to add equity partners in Stan
- ❑ Strong balance sheet (0.5x net debt / EBITDA)

# Event Hospitality & Entertainment



- ❑ Cinema business in Australia & New Zealand
- ❑ Australian hotel business - QT, Rydges & Atura
- ❑ Significant and strategic property portfolio
- ❑ Conservative balance sheet strengthened further by sale of German cinema assets
- ❑ New management reshaping the company

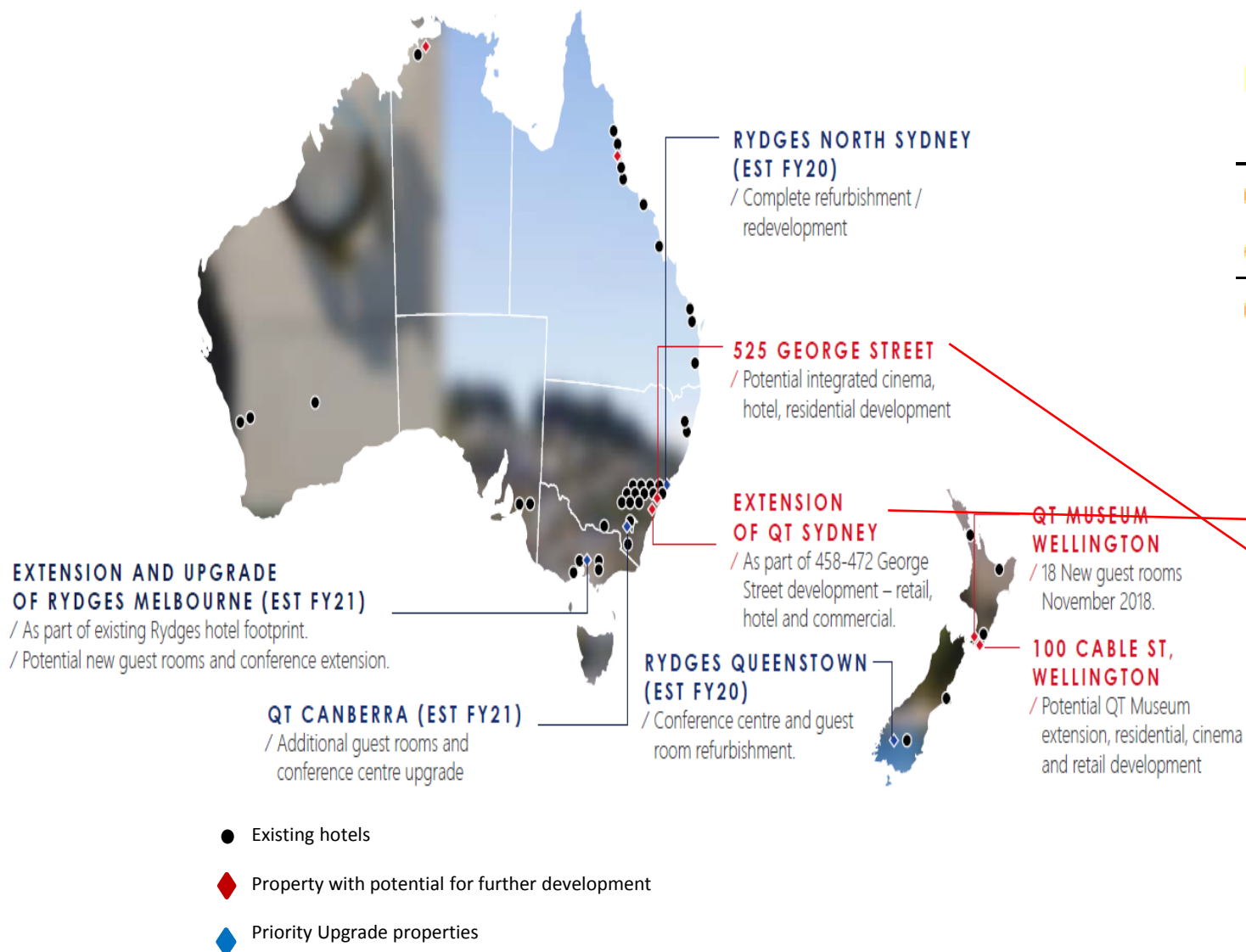


Source: IML, Events Hospitality & Entertainment website & company data  
As at February 2019

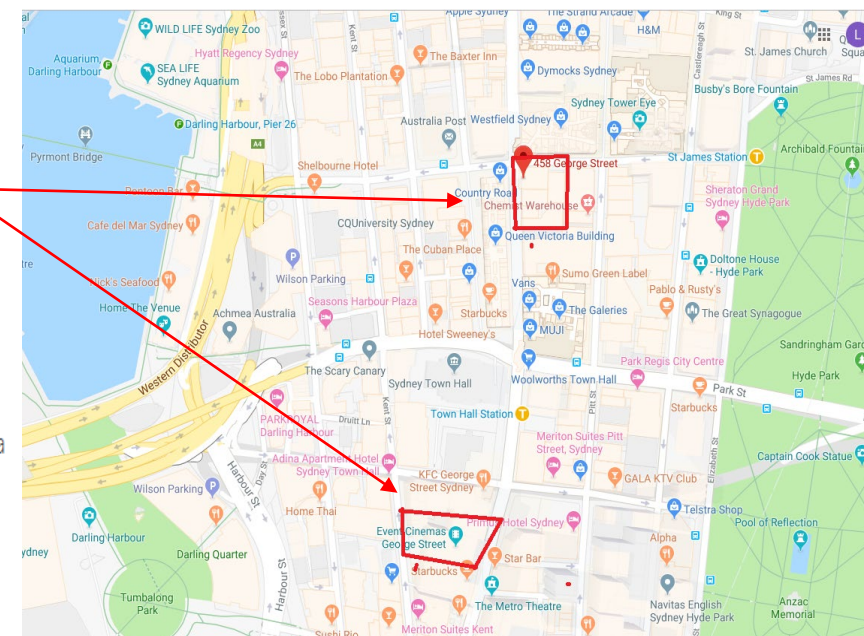




# Event Hospitality & Entertainment : Property portfolio market value: \$2bn

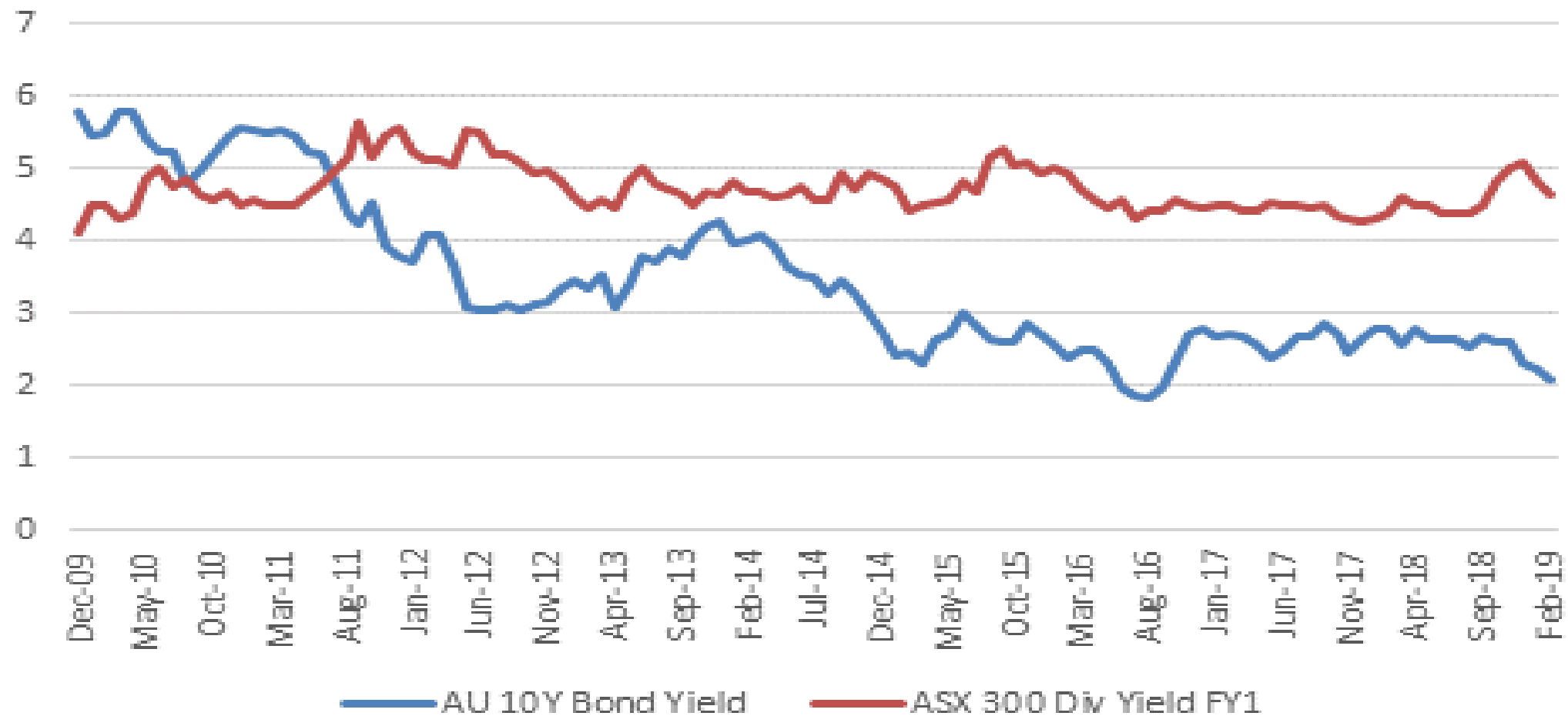


<b>Enterprise Value</b>	<b>\$ 2,300 m</b>
<b>Less Property</b>	<b>\$ (2,000) m</b>
<b>Operating EV</b>	<b>\$ 300 m</b>
<b>Operating EBITDA</b>	<b>\$ 118 m</b>
<b>Operating EV/EBITDA</b>	<b>2.5 x</b>



Source: IML, Events Hospitality & Entertainment website & company data  
As at 27 March 2019

# Interest rates stuck to the bottom – yields provide an investor a foundation



Source: FactSet;  
As at 22 March 2019





## Yields: don't forget the income

Portfolio Top Holdings	Yield
Genesis Energy	5.9%
GWA	5.6%
Southern Cross Media	6.6%
Tabcorp	4.5%
Nine Entertainment	5.7%
Crown Resorts	5.1%
Hotel Property Investments	6.1%
Ausnet	5.4%
Aurizon	5.0%
Skycity Entertainment	5.2%
Sydney Airport	5.3%
Regis Healthcare	4.7%
Shopping Centres Australasia	5.6%
Unibail-Rodamco-Westfield	7.3%
Charter Hall Retail	6.4%

*Genesis Energy dividend includes the supplemental.*

*Past performance is not a reliable indicator of future performance*

*Source: IML; FY19 estimates as at 2 April 2019*

## QVE Performance & NTA – February 2019

NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax	\$1.11 (ex div)
NTA after tax	\$1.10 (ex div)

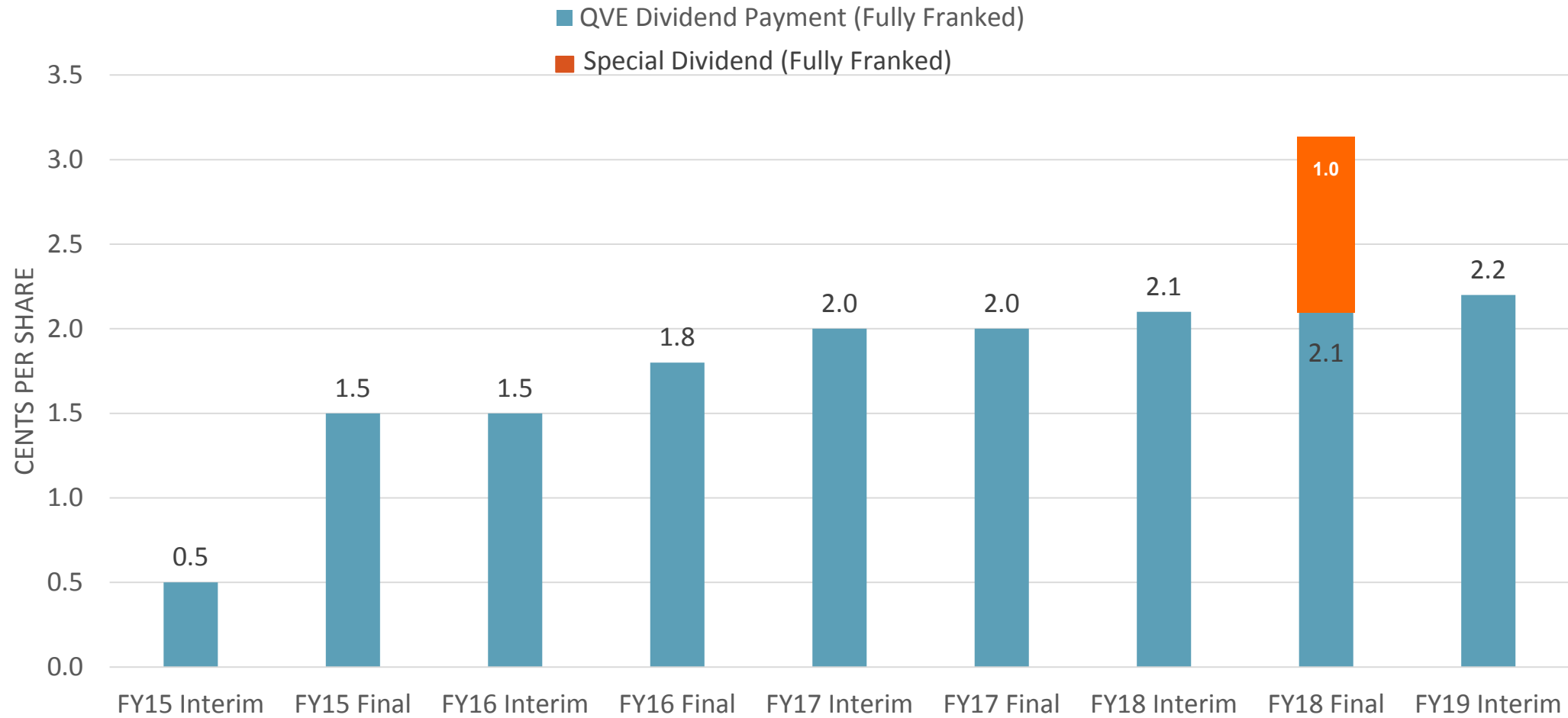
PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+2.2%	+1.6%	+5.3%
3 Months	+3.4%	+2.5%	+9.6%
6 Months	-4.2%	-2.8%	-2.8%
1 Year	-0.5%	+0.2%	+4.9%
Since Inception Total Return p.a	+7.3%	+6.2%	+10.1%

\*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.

*The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid from pre tax NTA. \*Performance is calculated to 28 February 2019. Past performance is not indicative of future performance.*

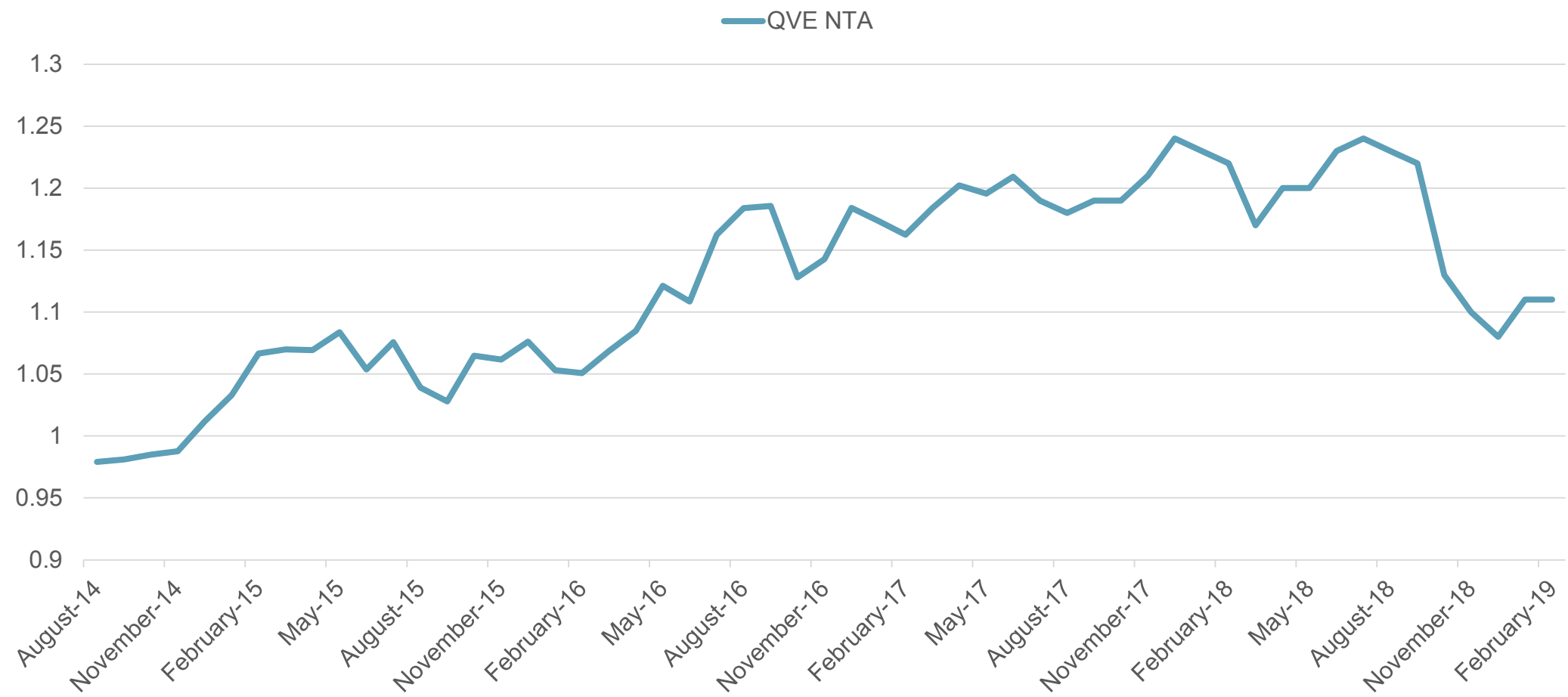
Source: QVE NTA as at 28 February 2019

# Historical Dividends to QVE Shareholders



Source: QVE FY18 Annual Report & HY19 Results report

# QVE historical NTA



Source: QVE

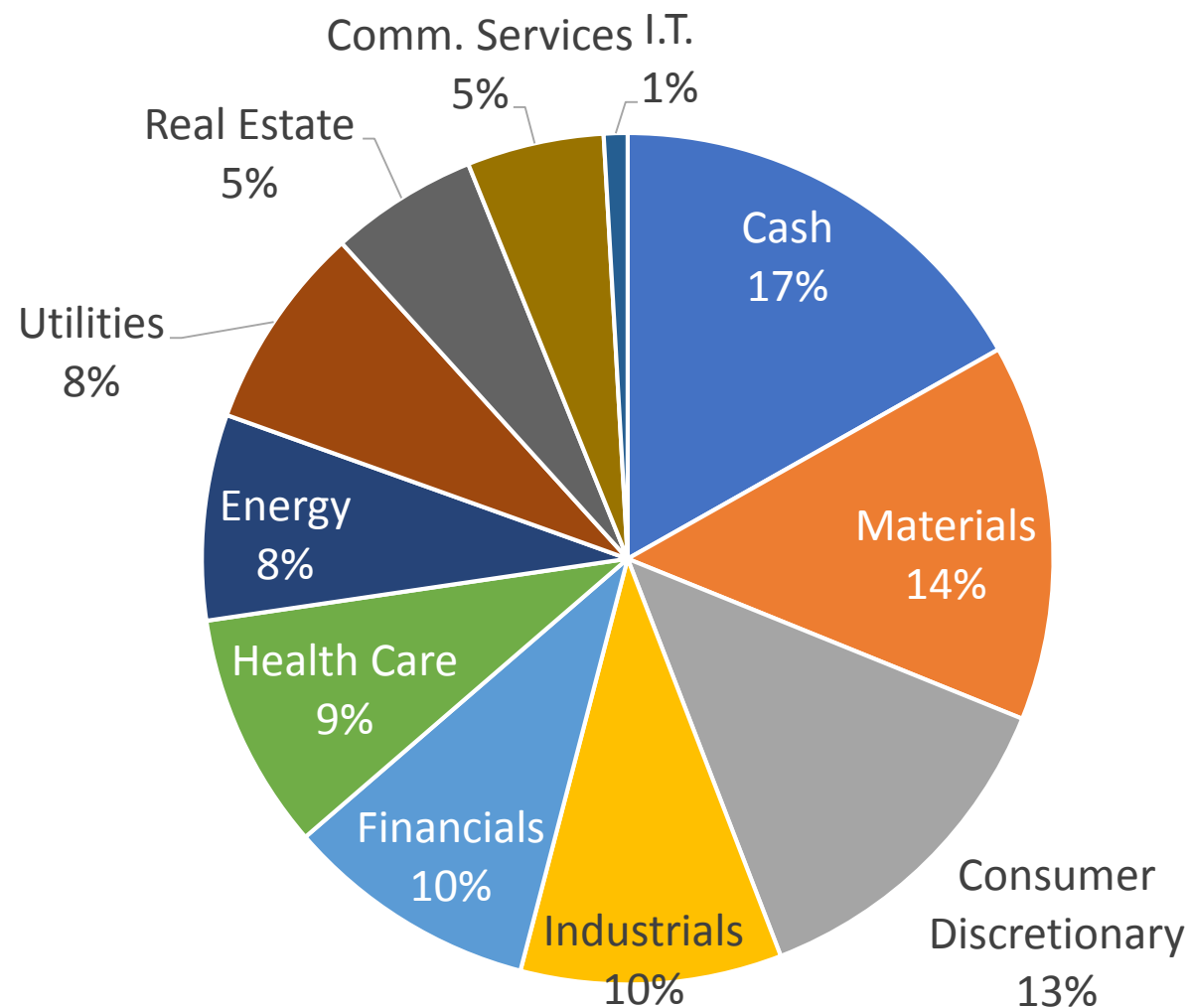


# Outlook

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- ❑ Global economies growing steadily
- ❑ Record low interest rates
- ❑ Ongoing volatility in the sharemarket
- ❑ Caution and being selective remains the key

## QVE Portfolio Weights – as at 28 February 2019



Source: QVE NTA February 2019

- ❑ Staying disciplined is key
- ❑ IML's portfolios underpinned by quality industrial companies on reasonable valuations
- ❑ Income will remain important
- ❑ Volatility expected to remain
- ❑ Selectively deploying cash opportunistically

- ❑ True to label: disciplined approach and proven track record over 20 years
- ❑ Proven investment process: proven downside protection and income generation
- ❑ IML has a long record of significant value add in this segment

*Past performance is not a reliable indicator of future performance*



# Conclusion

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- ❑ Thank you for your attendance
- ❑ Regular communications – videos and webinars
- ❑ Website sign up to receive IML emails, musings & investment updates
- ❑ Feedback forms – CPD Points
- ❑ Questions for the speakers

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