Monash Absolute Investment Company Limited (ASX: MA1) **3 September 2019**
August 2019 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 31 August 2019 the NTA Pre-Tax was $1.1132.

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 August, the Pre-Tax NTA was up 0.56% (after fees) compared to the S&P/ASX200 down -2.36% and the Small Ords, which was down -3.85%.

It has been a good start to the financial year, with the Pre-Tax NTA up 5.13% compared to the S&P/ASX200 up 0.52% and the Small Ords up 0.49%.

For the calendar year to date, the Pre-Tax NTA was up 29.49% (after fees) compared to the S&P/ASX200 up 20.34% and the Small Ords, which was up 17.38%.

August is the financial year reporting month for most companies, and media coverage has quoted fund managers saying it was disappointing. Recent broker summaries have shown 14% of companies beating forecasts versus 30% missing.

We are happy to report that we had a good reporting season, with 20% of our holdings beating expectations and only 5% missing. Despite holding a number of retail exposed stocks in the portfolio at time when many retailers are struggling we didn't find the reporting season disappointing, with Lovisa (ASX: LOV) and After Pay (ASX: APT) among our top contributors.

Company at a Glance 31 August 2019

ASX Code	MA1
Portfolio Size	$50.1m
Share Price	$0.97
Shares on Issue	44.3m

Estimated NTA (unaudited) 31 August 2019

Estimated NTA Pre Tax	$1.1132

Return Estimate to 31 August 2019

	NTA Pre Tax
1 Month	0.56%
FYTD	5.13%
3 Months	6.24%
CYTD	29.49%
1 Year	11.35%
2 Years p.a.	12.68%
3 Years p.a.	5.06%
Since Inception p.a. (April 2016)	4.70%

Portfolio Structure 31 August 2019

Outlook Stocks (Long)	19 Positions	81%
Outlook Stocks (Short)	2 Positions	-4%
Event, Pair and Group (Long)	1 Position	10%
Event, Pair and Group (Short)	0 Positions	0%
Cash		13%
TOTAL		**100%**
Gross Exposure		96%
Net Exposure		87%

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

Electro Optic Systems (ASX: EOS)

This month we review the EOS result. EOS is one of the portfolio's larger holdings.

Conservative Management + Conservative Guidance + Enormous Opportunities = Superior Shareholder Returns

There were three major pieces of information coming out of the EOS result[1]:

1. Management is moving into the next phase of its capacity expansion
2. Some details on the tenders in the Space division, and
3. EOS will still achieve its earnings guidance of CY19 EBIT of $20m and revenues of $230m and CY20 EBIT of $28m and revenues of $350m (representing EBIT growth of 170% and 40% respectively) despite extra Capex being required.

Capacity Expansion and Future Earnings Potential

EOS has provided guidance not only for this year but also for the following year. It is able to do this because it has already won the tenders to achieve its guidance. Just like any company involved in tendering, it needs to be in a position to win more work to replace the tenders it is currently delivering.

In this regard, EOS is in a very strong position as its earnings guidance is based on the $800m order book it has already won, but it is currently tendering for $2.0bn of work with around $300m per quarter expected to be awarded from early 2020. There are also many billions in additional work that EOS is working on (2 $1bn turret contracts, numerous counter-drone contracts etc).

It should be noted that with EOS's current generation of remote weapons systems (RWS) it has not lost a single tender. Management believe that over the long term they will win 40% of tenders. However at this point in time, with EOS's technically superior RWS we would not be surprised to see a much higher win rate and management is simply being conservative.

Demonstrating management's confidence in its outlook, it is now moving ahead with plans to expand its production capacity from the current $300m in revenue to over $900m over the next 3 to 4 years. To be clear, management believe that they will in the future have a business generating up to $900m in revenues. As such, the pace of EOS's tender pipeline is such that it will drive significant earnings growth over and above the guidance it has already provided.

The other implication of the significant growth that EOS is experiencing is the steadily increasing number of RWS that EOS will also be doing the maintenance work on. The margins on maintenance work are higher than tendering and are long term in nature. Based on our modelling, in the future when the pace of tendering works drops off the earnings from maintenance will have grown to a point where they can offset the drop-off.

[1] https://www.asx.com.au/asxpdf/20190830/pdf/448281z8c6vqt2.pdf

Space – a free option

We believe that the market places zero value on the Space Division, however, after many years of development, it is now participating in over $200m in potential procurements globally, which if successful will lead to significantly larger opportunities. EOS space technology has already demonstrated its capacities in space debris mitigation, space traffic management and space situation awareness. Management has indicated that by the end of September it expects to announce a major technical development.

The shareholder value that can be created by the Space division is material in our view, given the significantly higher margins in this division and the scale of the problems/issue that it is able to resolve.

Earnings Guidance

EOS has reiterated its earnings guidance of CY19 EBIT of $20m and revenue of $230m and CY20 EBIT of $28m and revenues of $350m (representing EBIT growth of 170% and 40% respectively). However, with this result it has indicated that this guidance now includes the extra expenses resulting from the plans to increase capacity, increase marketing and increase the number of tenders it is competing on. Obviously, the underlying performance of the business is better than what the headline numbers suggest.

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