

ASX: NSC

NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ABN 47 107 617 381

NSC generally invests in small-cap industrial companies with a market cap of \$100m-\$1b

MONTHLY INVESTMENT REPORT & NTA UPDATE

AS AT 31 OCTOBER 2020

Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$0.73	\$0.77	\$0.76	\$0.655	10	\$0.1475	6.49%

The above NTA figures are inclusive of the 1.25 cents per share fully franked Q1 FY21 quarterly dividend, which has an ex-dividend date of 9 November 2020 and a payment date of 26 November 2020.

Market Insight

The NSC Investment Portfolio returned +2.38% for the month of October, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which increased by just +0.46%. It was an eventful month, with a number of NSC investments providing meaningful updates. The most notable updates were provided by MNF Group (ASX: MNF) which provided FY21 guidance, Eureka Group (ASX: EGH) which completed the acquisition of two affordable rental seniors accommodation villages, and finally Consolidated Operations Group (ASX: COG) which provided a trading update for the 1st quarter of FY21.

Investment Portfolio Performance Monthly and FY Returns*

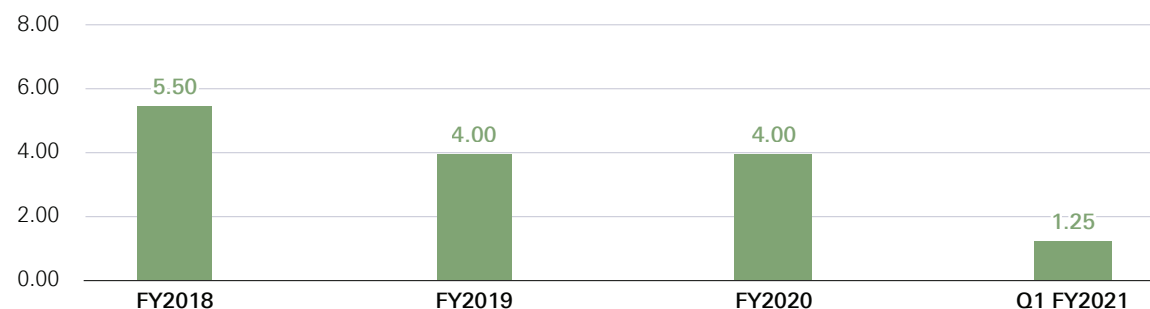
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY21	+1.53%	+3.17%	-0.09%	+2.38%									+7.14%
FY20	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	+2.59%
FY19	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	-13.29%
FY18						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	-3.44%

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Performance has not been grossed up for franking credits received by shareholders.

MNF provided FY21 EBITDA guidance of \$40-\$43 million, with the midpoint implying year-on-year (YOY) growth of 8.6%. As expected, the Wholesale business continues to perform well with UCaaS, CPaaS and Collaboration volumes remaining elevated and expected to remain so for the remainder of FY21. The new Singapore network will launch commercially in March but is not expected to benefit the FY21 earnings profile of MNF (interestingly customer onboarding has already commenced). Headwinds continue to relate to the audio-conferencing business which are forecast to reduce EBITDA by \$2 million, and the volumes lost on the minutes trading business in relation to international roaming are expected to reduce EBITDA by \$1.50 million compared to the prior year. Adding back these two headwinds and assuming no other changes the EBITDA guidance could have been \$43.50 - \$46.50 million or 18.50% EBITDA growth YOY. As we discussed in our recent article [click here to read](#), we believe a significant amount of shareholder value can be realised if the Direct and Wholesale Divisions are split either via a divestment or demerger. In our view, the key is to simplify the business so that investors can understand the drivers of each division and subsequently what they are worth relative to other listed peers. In the case of the Direct business, peers in Australia such as Spirit Telecom (ASX: ST1) and 5G Networks (ASX: 5GN) are trading on EBITDA multiples in excess of 10 times. For the MNF Wholesale business there is no more relevant and recent comparable than the Bandwidth (US: BAND) takeover of Voxbone for more than USD \$500 million, which equates to more than 6 times revenue.

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of fully franked quarterly dividends.



Conviction. Long Term. Aligned

NAOS

Investment Beliefs



Value with Long Term Growth



Quality over Quantity



Invest for the Long Term



Performance v Liquidity Focus



Ignore the Index



Pure Exposure to Industrials



Environmental, Social and Governance (ESG)



Management Alignment





Constructive Engagement

Market Insight Continued

As mentioned above, EGH acquired two independent seniors living villages; one based in Cairns and the other based in Hervey Bay. Including an earnout the total consideration paid for both villages was \$13 million, and assuming EGH is able to maintain at least a 10% ROFE then the expected full year EBITDA should be circa \$1.3 million p.a. which based on the prior year EGH EBITDA of \$8.7 million, will be a significant contributor to overall EGH earnings. In a world of record low interest rates together with a highly fragmented industry we believe the asset portfolio that EGH owns today will command a significantly reduced cap rate (from circa 10% currently) and should thus have the capability to increase the NTA going forward. In our view, EGH may not need to be reliant on equity to continue to fund bolt-on acquisitions, as they can continue to sell down a significant amount of non-core assets and we believe there are also other ways to build scale in what remains a very attractive asset class for certain investors.

Finally, COG provided a trading update for Q1 FY21, reporting NPATA of \$3.2 million, an increase of +129% to the prior comparative period. This growth has been driven predominantly driven by the Finance Broking & Aggregation segment which has seen both continued demand for finance from SME's, as well as an uptick in margins. We expect this trend to continue over the next 12 months, especially given the tailwind generated by the Federal Government's instant asset write-off scheme, which has been significantly expanded.

Core Investment Portfolio Examples

 <p>MNF Group ASX: MNF</p> <p>MNF is a founder led software company, which specialises in proprietary digital network infrastructure for voice communications. With 'next generation' networks in Australia, NZ and Singapore, MNF provides voice carriage and value-added software services to some of the world's largest software companies and wants to expand further into the APAC region.</p>	 <p>Over The Wire ASX: OTW</p> <p>Over The Wire is a founder led B2B provider for IT & telecommunication systems. OTW's purpose is to simplify technology to empower business through service offerings such as a national voice network, public cloud, PaaS/IaaS, cyber security services and on demand cloud connectivity.</p>	 <p>Eureka Group ASX: EGH</p> <p>Eureka Group is a provider of quality and affordable rental accommodation for independent seniors within a community environment. EGH owns 30 villages and manages a further 9 villages with a total of 2,147 units across Queensland, Tasmania, South Australia, Victoria and New South Wales.</p>	 <p>BSA ASX: BSA</p> <p>BSA is a solutions focussed technical services organisation. BSA assist clients in implementing their physical assets, needs and goals in the areas of Building Services, Infrastructure and Telecommunication. BSA clients include National Broadband Network (NBN), Aldi Supermarkets, Foxtel and the Fiona Stanley Hospital.</p>
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Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	+2.38%	+24.95%	-9.94%	+0.53%	-2.81%	-7.97%
S&P/ASX Small Ordinaries Accumulation Index	+0.46%	+15.10%	-2.40%	+5.67%	+3.40%	+10.25%
Performance Relative to Benchmark	+1.92%	+9.85%	-7.54%	-5.14%	-6.21%	-18.22%

* Investment Portfolio Performance is post all operating expenses, before fees, taxes and interest. Returns compounded for periods greater than 12 months. Performance has not been grossed up for franking credits received by shareholders. Inception performance (P.A. and Total Return) is from 1 December 2017.

Key Metrics – Summary Data

Weighted Average Market Capitalisation of the Investments	\$154.7 million
Cash Weighting	0.52%
Standard Deviation of Returns (NSC)	18.62%
Standard Deviation of Returns (XSOAI)	20.77%
Downside Deviation (NSC)	12.70%
Downside Deviation (XSOAI)	14.55%
Shares on Issue	156,338,296
NSC Directors Shareholding (Ordinary Shares)	2,232,113

NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.

		
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