

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 JANUARY 2021

### 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
\$0.81	\$0.86	\$0.82	\$0.74	13	\$0.1475	5.74%

### Market Insight

The NSC Investment Portfolio returned +1.05% for the month of January, outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) which decreased by -0.25%. After an eventful month in December with significant releases from BSA Limited (ASX: BSA) and Big River Industries (ASX: BRI) we expected January to be a little slow on the news front especially with half year reporting just around the corner. Consolidated Financial Services (ASX: COG) was the sole investment to provide any meaningful update, who updated the market with their 1H FY21 guidance.

### 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%	+6.19%	+3.79%	+1.05%						+19.32%
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, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

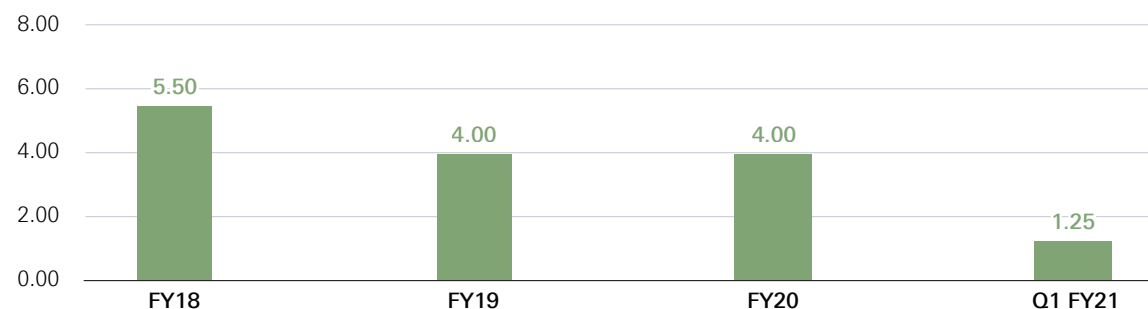
COG announced that their 1H FY21 Net Profit After Tax and Amortisation (NPATA) would be \$10.1 million, an increase of +140% on the PCP. This profit growth has pleasingly translated into strong free cash flow with unrestricted cash and term deposits of \$53 million (not including their ~\$17 million listed investment in Earlypay Ltd (ASX: EPY), against a market capitalisation of \$149 million with minimal gross debt. This profit growth was driven by two main factors, the first of these being the Finance, Broking & Aggregation division, where margins have increased as the business continues to improve efficiencies through automation, as well as offering complementary services to their clients such as insurance broking. The other key driver of the result was the increased ownership in debenture issuer Westlawn Finance. We believe Westlawn has continued to be a beneficiary in the growth of its debenture book as well as the growth in its insurance broking arm. Finally, COG stated that they will be rolling out a "hub & spoke" insurance broking model to all of their owned and aggregated broker members in the coming months.

Looking forward, we believe there are several key catalysts within the NSC Investment Portfolio that should assist in driving the performance of the fund, in our view BSA Limited (ASX: BSA) and Eneo Group (ASX: EGG) are two such investments with significant short-to-medium term upside.

Even though BSA had a highly eventful CY20 we believe there remains some significant catalysts. The first of these relates to the \$4.5 billion that the National Broadband Network (NBN) is seeking to spend over the next 3 years to continue to upgrade specific parts of the network. We believe BSA is well positioned to secure part of this work as it continues to deepen its relationship with NBN, as demonstrated through its recent contract win. Secondly, in our view the recent acquisition of

### 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

Catalyst One provides an opportunity to potentially transform a <\$15 million revenue business into a \$100 million business over the next 3 – 5 years if BSA can successfully combine the Catalyst One offering with their existing skillset to offer a one-stop solution for customers around both their current and future wireless capability needs. In addition, we see no reason why BSA cannot be more aggressive on the capital management front where an active buyback would be earnings accretive and a higher payout ratio could be achieved given the significant cash balance on the balance sheet.

Finally, Enero Group (ASX: EGG) provided a stellar Q1 trading update late in CY20. Investors will be seeking to understand whether this momentum has continued into Q2 and even Q3 of FY21. We also believe the market is seeking greater transparency around the EGG subsidiary OB Media, an ad tech business based in the US, with key clients including both Microsoft and Google. Such ad tech businesses in the US are currently trading on significant revenue multiples which we believe if applied to OB Media could value the business at a compelling amount.

## Core Investment Portfolio Examples

 <p><b>MNF Group</b> 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><b>Over The Wire</b> ASX: OTW</p> <p>Over The Wire is a founder led B2B provider for IT &amp; 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><b>Eureka Group</b> 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><b>BSA</b> 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>
--	--	--	---

## Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
<b>NSC Investment Portfolio Performance*</b>	+1.05%	+17.53%	+0.22%	+7.30%	+0.77%	+0.78%	+2.50%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index</b>	-0.25%	+18.33%	+5.38%	+11.90%	+6.68%	+6.68%	+24.61%
<b>Performance Relative to Benchmark</b>	+1.30%	-0.80%	-5.16%	-4.60%	-5.91%	-6.41%	-22.11%

\* Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. 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	\$155.8 million
Cash Weighting	1.4%
Standard Deviation of Returns (NSC)	18.33%
Standard Deviation of Returns (XSOAI)	20.70%
Downside Deviation (NSC)	12.31%
Downside Deviation (XSOAI)	14.05%
Shares on Issue	155,217,457
NSC Directors Shareholding (Ordinary Shares)	2,251,611

## NAOS Asset Management Giving Back

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

			
--	---	---	--



**Important Information:** This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

## Our Team

### Chairman

Trevor Carroll  
(Independent)

### Directors

Warwick Evans  
Sebastian Evans  
David Rickards  
(Independent)

### Chief Investment Officer

Sebastian Evans

### Portfolio Managers

Robert Miller  
Ben Rundle

### Chief Financial/Operating Officer

Richard Preedy

### Business Development Manager

Nina Dunn

### Head of Legal and Compliance

Rajiv Sharma

### Marketing & Communications Manager

Angela Zammit

NAOS

## Enquiries

(02) 9002 1576

enquiries@naos.com.au

www.naos.com.au