

SEC Results 1st Half FY21

Highlights

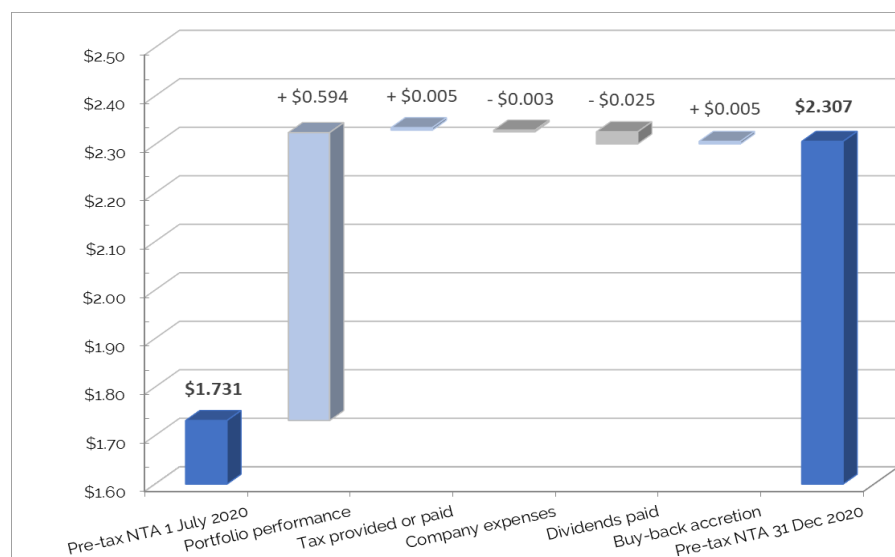
1H FY21 profit	Company Performance ¹	Interim dividend	Yield
\$25.6m	+35.3%	3.5c	3.1% ²

- 1H FY21 net profit after tax of \$25.6m
- Company Performance of +35.3%, +15% compared to benchmark³
- Interim dividend of 3.5 cents per share (fully franked at 26% tax rate)
- Annual dividend yield 3.1%² (4.2% including franking)
- On-market share buy-back adds 0.5c NTA per share for half-year and 2.8 cents from inception to 31 December
- Strong performance since 1 January 2021 with NTA per share up 4.0%⁴

Spheria Emerging Companies Limited (ASX:SEC or the **Company**) recorded an operating profit of \$25.6m for the half-year ended 31 December 2020 (1H FY21). This compares to a profit of \$4.6m in the prior corresponding period.

The Company's investment portfolio performed very strongly during the half-year. Company Performance, which measures investment portfolio performance after management and performance fees and Company expenses (excluding taxes), was 35.3% for the half, exceeding the benchmark by 15%.

NTA performance breakdown for 1H FY21⁵



¹ Calculated as investment portfolio performance after management and performance fees and Company expenses, excluding taxes. Company Performance does not include the impact of dividends and taxes paid by the Company and also excludes the accretive impact of the share buy-back on the Company's NTA.

² Annual dividend yield when combined with FY20 final dividend of 2.5 cents per share, calculated on share price as at 31 December 2020 of \$1.915.

³ S&P/ASX Small Ordinaries Accumulation Index.

⁴ Based on estimated pre-tax NTA at 23rd February 2021 (last published) of \$2.399.

⁵ Portfolio performance is shown net of management and performance fees.

Interim dividend

The Board has resolved to pay a fully franked interim dividend of 3.5 cents per share. The dividend will be paid to SEC shareholders on 24 March 2021 with a record date of 10 March 2021. When combined with the final FY20 dividend of 2.5 cents per share paid in September 2020, this equates to an annual dividend yield of 3.1%⁶ or a grossed-up yield including franking of 4.2%⁷ based on the share price at 31 December 2020. The Company's intention is to pay a dividend to shareholders at least annually, subject to available profits, cash flow and franking credits.

Dividend ex-date	Record date	Payment date
9 March 2021	10 March 2021	24 March 2021

Change to dividend franking tax rate

Please note following lodgement of its FY2020 income tax return the Company's corporate tax rate for imputation purposes, which applies to franked dividends paid during the year ending 30 June 2021, will be reduced to 26%. This is a change from the 30% corporate tax rate that applied to dividends paid in previous financial years.

A consequence of this change is that the fully franked dividend paid by the Company in September 2020 will be franked at a 26% corporate tax rate, rather than 30%. SEC will contact shareholders in due course to update franking information for this dividend.

Discount to NTA

The Board is pleased that the SEC share price has traded back above the \$2.00 per share IPO price in recent weeks. This is largely as a result of the strong performance of the Company's portfolio since June 2020. The Board, however, also acknowledges that the NTA discount remains unacceptably wide. At 23rd February 2021⁸, SEC shares were trading at a 15.8%⁹ discount to estimated pre-tax NTA (\$2.399 per share). The Board remains committed to addressing the discount to NTA.

The Company has undertaken two primary initiatives to close the NTA discount to date:

- 1. On-market buy-back of the Company's shares to take advantage of the accretive nature of buying shares at an NTA discount.** As at 24th February 2021, the Company has bought back 6.17 million shares, equivalent to 9.3% of the Company, since the buy-back started in July 2019. The buy-back has added approximately \$0.03 to the Company's NTA per share since inception of the buy-back by buying shares at an average price of \$1.59 per share, an average discount to NTA of 17.7%. Further information on the refreshing of the on-market share buy-back is provided below.

⁶ Annual dividend yield when combined with FY20 final dividend of 2.5 cents per share, calculated on share price as at 31 December 2020 of \$1.915.

⁷ Based on corporate tax rate for dividend imputation purposes of 26%.

⁸ Date of last published NTA backing.

⁹ Share price close at 23rd February 2021 of \$2.02.

2. **Dividend guidance to highlight the income generating nature of the Company.**
The Company provided annual dividend guidance to shareholders on the 23rd November 2020 of a minimum of 6.0 cents per share for FY2021 and FY2022. Today's interim dividend of 3.5 cents per share highlights the conservative nature of this guidance, subject to market movements.

The Board continues to review a range of possible additional measures to reduce the NTA discount and will update shareholders in due course in relation to any additional measures undertaken in addition to those outlined above.

On-market share buy-back

During the half-year ended 31 December 2020, 748,968 shares were purchased under the buy-back for consideration of \$1,061,000. A further 1,039,230 shares have been purchased since period end to 24th February 2021, bringing the total shares purchased under the buy-back since it was originated on 1 July 2019 to 6.17 million shares for consideration of \$9.8 million.

The Board announces today that it has decided to further expand the on-market share buy-back. Under their current buy-back authority, the Board intends to purchase up to a further 1,500,000 shares to take the total buy-back to 11.6% of the shares in issue since inception of the buy-back in July 2019. This will enable the Company to continue to take advantage of buying back shares while the share price trades at a discount to the NTA per share, benefitting shareholders who remain invested in the Company by increasing the NTA per share.

Investment by the Manager

As at 31 December 2020, the aggregate holding in SEC of the Manager and executives of the Manager (who are not acting in concert with each other) was in excess of 775,000 shares. The Manager is committed to being a long-term investor in the Company.

Shareholder webinar on results and portfolio

The Board invites you to the upcoming shareholder webinar on 2nd March 2021 at 10.00am (Sydney time AEDT). The webinar will provide an update on the Company by Jonathan Trollip, Chairman of the Company and on the investment portfolio by Matthew Booker and Marcus Burns, the portfolio managers of Spheria Asset Management Pty Ltd.

Shareholders are invited to register at the following [link](#):

Authorised by:

Calvin Kwok
Company Secretary
25 February 2021

Additional shareholder information

Performance as at 31 December 2020

	Since 1 July 2020	Since inception p.a.
Company*	35.3%	8.4%
Portfolio**	35.6%	8.8%
Benchmark***	20.3%	7.4%
Portfolio Outperformance	15.3%	1.4%

*Calculated as investment portfolio performance after management and performance fees and Company expenses, excluding taxes. Company Performance does not include the impact of dividends and taxes paid by the Company and also excludes the accretive impact of the share buy-back on the Company's NTA.

**Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees and performance fees (if applicable).

*** S&P/ASX Small Ordinaries Accumulation Index.

Manager's commentary

Portfolio performance

The investment portfolio increased 35.6% for the half-year ended 31st December 2020, outperforming the S&P/ASX Small Ordinaries Accumulation Index by 15.3%. The first half of the fiscal year has seen the market perform strongly and the portfolio perform significantly better. Whilst the team would like to take all the credit for this - the reality is that some of this alpha is effectively timing related. In other words, some of the underperformance the Company experienced in the final quarter of FY2020 effectively unwound during the first half of FY2021. This is reflected in some of the stock names which hurt performance, recovering strongly from very oversold levels during the first half of this fiscal year.

The team feels this has been driven by two things. Firstly, as the team forecast the economic backdrop has been accommodative - low interest rates and abundant liquidity has given companies and consumers the confidence to continue spending. The impacts of the Government's Job Keeper program - whilst arguably a blunt instrument in hindsight - effectively staved off significant unemployment and gave consumers money to spend during a period of subdued confidence. Secondly, investor sentiment has recovered with this broad economic recovery and stocks lower down the market cap spectrum have performed well. In particular, micro-cap names have significantly outperformed small- and large-cap stocks during the period.

The largest contributors to performance over the six months were Seven West Media, Mortgage Choice and Corporate Travel Management. Interestingly these names (excluding Corporate Travel which the Company did not own previously) were amongst the biggest detractors in the previous period however the positive contribution during this half outweighed the previous negative contribution. The three biggest detractors over the period were Lynas Rare Earths (not owned), Mineral Resources (not owned) and Blackmores Ltd.

Market outlook

We are currently seeing a market which is presenting good opportunities for the way Spheria invests. While there are portions of the Company's investment universe that have seen euphoric moves driven by little more than momentum, there remain many areas which have significant fundamental valuation support. It is here that we are focusing our attention. The small-cap space has seen significant de-gearing of balance sheets over the past year as many companies over-raised precautionary capital during the COVID-19 crisis and eschewed paying dividends only to report strong results last fiscal year. Many are also likely to report strong results in the coming results season. The opportunity to invest and the likely catalysts offered by M&A and corporate activity should prove to be a good combination for the Company.

About Spheria Asset Management Pty Ltd (Manager)

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers.

The Manager is majority owned by its team with nearly 100 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle Investment Management Limited.

Disclaimer

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