

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 28 FEBRUARY 2022

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
\$0.99	\$0.99	\$0.94	\$0.84	10	\$0.211	6.07%

The above NTA figures are inclusive of the 1.35 cents per share fully franked Q2 FY22 dividend, which went ex-dividend on 7 March 2022 and will be paid on 25 March 2022.

Market Insight

For the month of February, the NSC investment portfolio produced a negative return of -2.96% compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index which fell by -0.01%, in what was again an extremely volatile month for equities. As expected, February was an eventful month for the NSC investment portfolio with most companies reporting their half-year results.

Investment Portfolio Performance Monthly and FY Returns*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
FY22	-0.68%	-0.18%	-0.77%	+4.15%	-2.17%	+3.89%	-6.51%	-2.96%					-5.52%
FY21	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	+58.40%
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.

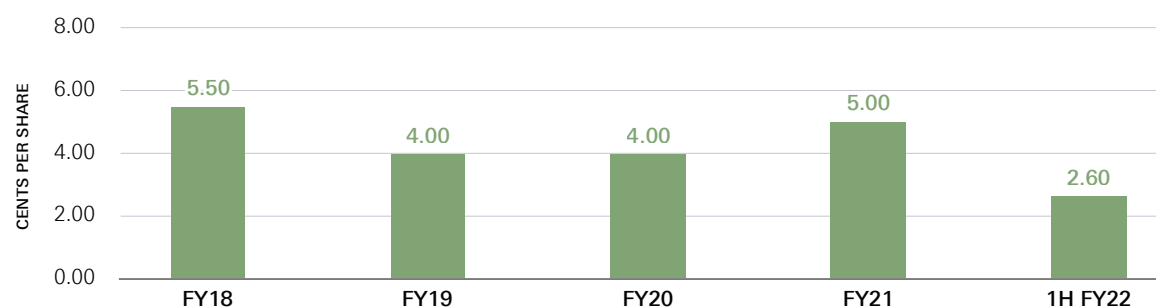
In our view, the majority of NSC investments provided positive trading updates, however this was not reflected in the resultant share price movements. Such examples included:

- Gentrack Group (ASX: GTK) provided a positive trading update and upgraded FY22 guidance for revenue growth of ~10% and EBITDA margins in the low single digits (\$m) (post expensing all research and development costs), yet the share price fell ~-10% for the month.
- Big River Industries (ASX: BRI) posted a record profit and dividend and subsequently the stock increased by ~+7%, yet on a price to FY22 earnings ratio of <11 times, BRI trades on a 40% discount to other listed building materials businesses.
- COG Financial Services (ASX: COG) announced a capital light acquisition that we believe should increase NPATA by approximately +10% on an annualised basis, as well as signing a term sheet for an inaugural acquisition debt facility of \$31 million. The 1H FY22 result was pre-released with the previous months trading update, which saw adjusted EPS increase by ~+16%. Pleasingly COG also declared a record \$0.035 fully franked interim dividend. The COG share price finished flat for the month.
- MOV Logistics (NZX: MOV) posted a flat 1H FY22 revenue result and reported a decrease of -12% at the EBITDA line compared to the prior comparative period. Considering the effects of the recent COVID lockdown in New Zealand we thought this was a commendable result. Importantly, the strategic shift towards owner-operator drivers remains on track and the recent spate of executives who have joined from the likes of Mainfreight (NZX: MFT) continued with the new Chief Information Officer (CIO) a former MFT executive. The MOV share price decreased by ~-10% in February.

Based on the above share price reactions, the wider market appears to be expecting the earnings of these businesses to either flatline or decline over the next 12-24 months. We hold a differing view and expect earnings per share for each of these

Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of dividends, franked to the maximum extent possible.



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

businesses to grow (in some cases significantly) over this period due to a mixture of industry tailwinds (structural change), margin expansion and acquisitions. Time will tell whether we will be proved correct but, in some cases, such as BRI and MOV, if earnings continue to increase then we would argue there is also potential for the earnings multiple to be re-rated by the market by 40-60%.

It was somewhat surprising that GTK was one of the major detractors for the month, as the company provided a strong trading update at their AGM. GTK's initial guidance for FY22 was for "revenue growth" though this was amended to revenues of "around \$115 million" with EBITDA expected to be in the low single digits (\$'m). This guidance implies revenue growth of circa 10% even though management have previously disclosed that there is a \$5-10 million headwind from a customer who announced they were leaving GTK some time ago. Taking this into account the true revenue growth of the business is closer to +15-20%. On face value the EBITDA generated could be considered low for a business of GTKs' scale, but it should be noted that all research & development is expensed. If GTK were to capitalise a majority of this (as most Australian technology companies do) then EBITDA could be closer to \$10 million. We continue to believe that GTK remains extremely undervalued and that its growth prospects are more tangible than the wider market appreciates. With an EV/Revenue multiple of just over 1x, in our view GTK has the potential to be valued over 2-3 times higher especially if the current management team's track record of under promising and overdelivering continues.

Core Investment Portfolio Examples

 <p>Move Logistics Group NZX: MOV</p> <p>Move Logistics Group is a logistics operator based in New Zealand specialising in both international and domestic freight and warehousing logistics. Move is one of New Zealand's largest logistics companies with 50 sites across the country servicing 3,500+ customers. The Group is expanding its operations into coastal shipping and is looking to support the growth and development of hydrogen within the economy.</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>Big River ASX: BRI</p> <p>Big River is a large distributor of building material products as well as a manufacturer of high value niche timber products. Big River is an integrated Australian timber products business that operates across the full continuum from procurement of raw materials through to sale of finished products to end users which are then distributed across 21 sites across Australia and New Zealand.</p>
--	--	--

Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
NSC Investment Portfolio Performance*	-2.96%	-4.71%	+12.19%	+18.29%	+14.53%	+6.09%	+28.54%
S&P/ASX Small Ordinaries Accumulation Index	-0.01%	-9.14%	+5.02%	+10.94%	+7.74%	+6.92%	+32.89%
Performance Relative to Benchmark	-2.95%	+4.43%	+7.17%	+7.35%	+6.79%	-0.83%	-4.35%

*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	\$194.7 million
Cash Weighting	0.02%
Standard Deviation of Returns (NSC)	17.94%
Standard Deviation of Returns (XSOAI)	18.81%
Downside Deviation (NSC)	11.14%
Downside Deviation (XSOAI)	12.88%
Shares on Issue	147,060,555
NSC Directors Shareholding (Ordinary Shares)	2,403,933
NSC Options Closing Price (ASX: NSCOA)	\$0.029

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 OAM
(Independent)

Chief Investment Officer

Sebastian Evans

Portfolio Managers

Robert Miller
Brendan York

Senior Investment Analyst

Jared Tilley

Associate Investment Analyst

Nelson De Mestre

Chief Financial/Operating Officer

Richard Preedy

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