

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 MAY 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
\$0.93	\$0.94	\$0.90	\$0.765	10	\$0.2245	6.80%

### Market Insight

After outperforming the benchmark S&P/ASX Small Ordinaries Accumulation Index (XSOAI) by >9% in April, the NSC Investment Portfolio underperformed by -2.23% in May after returning -9.24% compared to the XSOAI which fell by -7.01%. Pleasingly, the NSC Investment Portfolio has still significantly outperformed the XSOAI benchmark over the previous 1, 2 and 3-year periods.

### 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%	-1.21%	+9.32%	-9.24%		-7.40%
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.

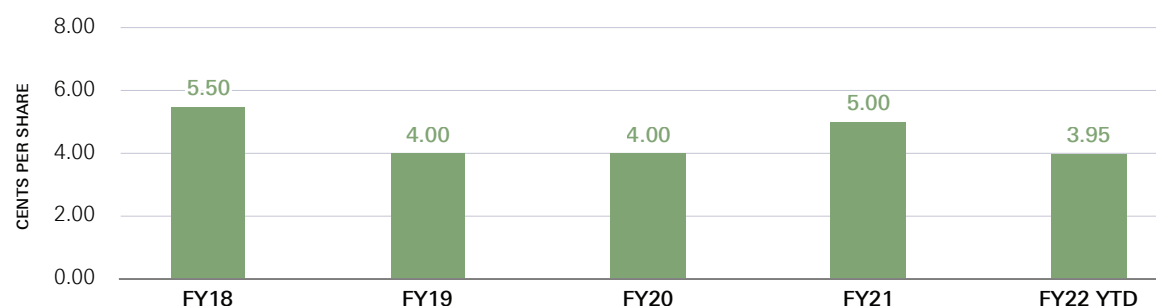
There were two significant updates from our core investments in the month, the first of these was from Big River Group (ASX: BRI) which provided a positive trading update leading into the FY22 results. Secondly, Gentrack (ASX: GTK) released their 1HFY22 results which we believe highlight not only the significant potential that this business has over the longer term, but also significant confidence around the growth in EBIT we expect over the next 2-3 years. Frustratingly, even with what we believed to be two positive updates there was not one investment which made a meaningful (>0.50%) positive contribution to performance and 5 of the core investments had a >-1% detractor to performance.

To highlight some of what we believe to be irrational movements in the share prices of our investments that we saw in the month, BRI was the largest detractor to performance even after upgrading FY22 guidance and trading on a price to earnings ratio of <9.50 times FY22 post tax earnings.

Clearly, investors are reducing their exposure to emerging companies (small and micro-cap businesses) and at a very high level, which can be seen by the ~-7% decline in XSOAI compared to the S&P ASX-100 Accumulation Index which fell by just by -2.19%. Based on our past experiences this may continue for some time especially as many institutional investors seek to maintain high levels of liquidity to fund any current or potential investor redemptions together with emerging companies no longer forming part of their investment strategy due to their overall small exposure to such investments as well as the perceived high-risk nature of such investments. We can't control such events but as an investment team we can control the type of investments that we make and position the Investment Portfolio in a manner that we consider will best maximise performance in times where significant macro events may occur. To highlight how NAOS puts this into action, set out on the following page are some key investment metrics:

### 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

- FY22 EBIT: \$24.31 million
- Net Debt: \$17.11 million
- FCF Yield Pre-Capex: 10.42%
- Insider Ownership: 9.80%
- EBIT Growth FY22: 44.60%
- Dividend Yield: 3.81%

\*Figures are based on NAOS' internal estimates and views.

As mentioned earlier, BRI announced that trading conditions have been strong with FY22 full year profitability tracking at the upper end of guidance. As 2HFY22 guidance was originally slightly below 1HFY22 EBITDA, we now assume this to mean at least inline or slightly above the 1H22 result. At the NPAT level this could, in our view, imply a FY22 NPAT of ~\$20 million or EPS of ~25cps. This EPS compares to a share price of \$2.27 at the end of May which implies a P/E of just 9.36 times.

Finally, GTK released a result that was in line with their previous guidance provided over six months ago. The highlight in our view was the underlying growth rate of ~24% when factoring in customers lost due to the "Supplier of Last Resort" process. Gary Miles (CEO) and his team have only had 12-18 months to implement their strategy so to see such top line traction should in our view, give investors confidence that they can continue to successfully execute on their stated strategy. Many onlookers of GTK remain sceptical of their margin ambition but in our view, this is more than priced in and if the FY24 ambitions prove correct, we believe GTK has the potential to be >\$3.50 compared to \$1.52 at the end of May.

## Core Investment Portfolio Examples

 <p><b>Move Logistics Group</b> 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><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>Big River</b> 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>
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## Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	4 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
<b>NSC Investment Portfolio Performance*</b>	-9.24%	-7.62%	-7.10%	+25.75%	+15.09%	+7.21%	+5.27%	+25.99%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index</b>	-7.01%	-11.02%	-4.56%	+9.99%	+5.50%	+4.63%	+5.66%	+28.12%
<b>Performance Relative to Benchmark</b>	-2.23%	+3.40%	-2.55%	+15.76%	+9.59%	+2.57%	-0.39%	-2.13%

\*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	\$209.9million
Cash Weighting	2.22%
Standard Deviation of Returns (NSC)	18.53%
Standard Deviation of Returns (XSOAI)	18.79%
Downside Deviation (NSC)	11.44%
Downside Deviation (XSOAI)	12.81%
Shares on Issue	144,697,156
NSC Directors Shareholding (Ordinary Shares)	2,434,050
NSC Options Closing Price (ASX: NSCOA)	\$0.022

## 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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**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

### ESG Officer

Julie Coventry

### Chief Financial/Operating Officer

Richard Preedy

### Head of Legal and Compliance

Rajiv Sharma

### Marketing & Communications Manager

Angela Zammit

### Marketing Coordinator

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