

# **Cadence Opportunities Fund Limited (ASX Code: CDO) Half-Year Audiocast**

In this half-year audiocast, Karl Siegling first provides an update on the Company's half-year performance, the upcoming 6.5c fully franked interim dividend and DRP, the composition of the portfolio and the current investment themes. Karl Siegling and Chris Garrard then discuss two of the Company's current investments and then finish with the outlook for the rest of the year.

You can listen to the audiocast at <https://www.cadencecapital.com.au/cdo-dec-2023-webcast/>

Regards,

Wayne Davies  
Cadence Opportunities Fund Limited



# Cadence Opportunities Fund Limited



## Half Year December 2023

- First half of the year the fund was up 3.6%
- Profit after tax of \$0.9m
- The top contributors to performance during the first half were Meta Platforms, Whitehaven Coal, Tietto Minerals, Westgold Resources, Red 5, Stanmore Resources and BHP Group.
- The largest detractors from performance were Sierra Rutile Holdings, AMP, Augustus Minerals and Patriot Battery Metals.
- Core investments across the resources and energy sectors were again a major driver of returns for the fund in the period, continuing the theme witnessed over the past 18 months.
- Over the first six months, trading activity continued to be low with the fund holding higher than average cash levels.
- The fund has delivered returns with significantly lower than market volatility over the first six months





## Interim Dividend

Calendar Year	Interim	Final	Special	Total	Gross (Inc. Franking)
2020		6.0c	-	6.0c	8.6c
2021		12.0c	3.0c	15.0c	21.4c
2022	7.5c	7.5c	-	15.0c	21.4c
2023	7.5c	6.5c	-	14.0c	20.0c
2024	6.5c	-	-	6.5c	8.3c
<b>TOTAL</b>	<b>21.5c</b>	<b>32.0c</b>	<b>3.0c</b>	<b>56.5c</b>	<b>80.7c</b>

- 6.5 cps fully franked interim dividend.
- The interim dividend equates to an **8.1% annualised** fully franked yield or a **11.6% gross yield** (grossed up for franking credits) based on the share price on the date of the announcement of \$1.60 per share.

3



## Interim Dividend - DRP

- After paying this final dividend, the Company still has 22.5 cents per share of profit reserves to pay future dividends.
- The Ex-Date for the dividend is 15<sup>th</sup> April 2024. The payment date for the dividend is 30 April 2024.
- The DRP is in operation for this interim dividend. The DRP will be priced at the weighted average share price over the relevant DRP pricing period. At the time of writing this presentation CDO share price is trading at a pre-tax NTA discount of around 15%.
- Participating in the DRP is an efficient mechanism to add to existing holdings in the fund without paying brokerage.
- If you are not registered for the DRP and you would like to participate, please contact Boardroom on 1300737760.
- The Company will buy-back the shares it issues under the DRP.
- The buy-back will operate when the CDO share price is trading at a discount to the Pre-Tax NTA.

4





# CDO Portfolio

## Sector Analysis of Portfolio (29 February 2024)

Sector	Long	Short	Net
Basic Materials	22.3%		22.3%
Communications	18.8%		18.8%
Energy	18.0%		18.0%
Financial	10.0%		10.0%
Industrial	8.8%		8.8%
Insurance	6.4%		6.4%
Consumer, Non-cyclical	3.0%		3.0%
Utilities	2.0%		2.0%
Technology	1.3%		1.3%
Banks	0.0%	-0.7%	-0.7%
<b>Net Cash Holdings</b>	<b>90.5%</b>	<b>-0.7%</b>	<b>89.8%</b>

- CDO has a very liquid and diversified portfolio
- The company holds 43 positions with the largest position 9% of the fund.
- Over the past few months CDO has been investing its cash as more new investments were identified and as existing investments that continued to trend up were added to.

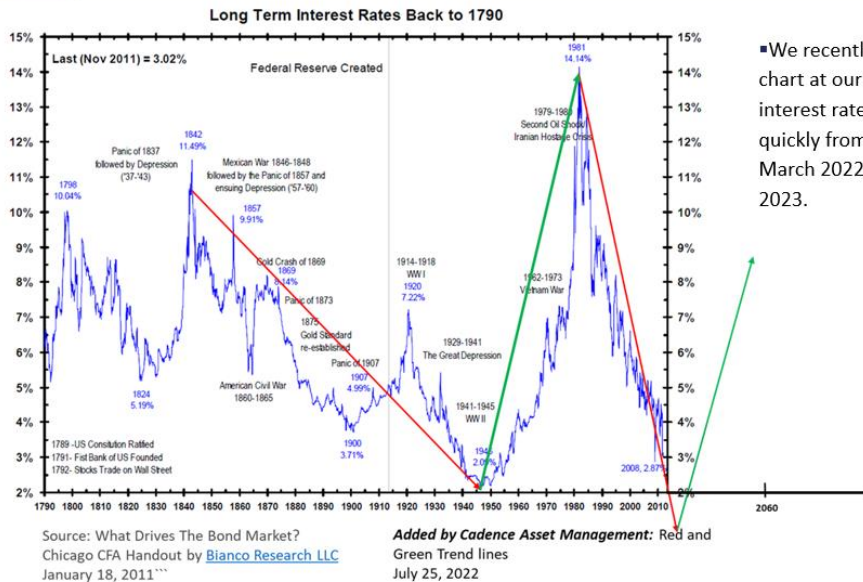
## 20 Top Holdings (Both Long and Short) 31 January 2024 (Delayed)

Stock Code	Position *
ACF	Acrow Ltd
AWC	Alumina Ltd
ANG	Austin Engineering Ltd
BHP	BHP Group Ltd
BLD	Boral Ltd
CS CN	Capstone Copper Corp
GNW US	Genworth Financial Inc
JLG	Johns Lyng Group Limited
MEG CN	MEG Energy Corp
META US	Meta Platforms Inc
NFLX US	Netflix Inc
QBE	QBE Insurance Group Ltd
SIQ	Smartgroup Corp Ltd
SMR	Stanmore Resources Ltd
STX	Strike Energy Ltd
TIE	Tietto Minerals Ltd
THL NZ	Tourism Holdings Ltd
WGX	Westgold Resources Ltd
WHC	Whitehaven Coal Ltd
Z US	Zillow Group Inc

\* In Alphabetical Order



# Interest rates

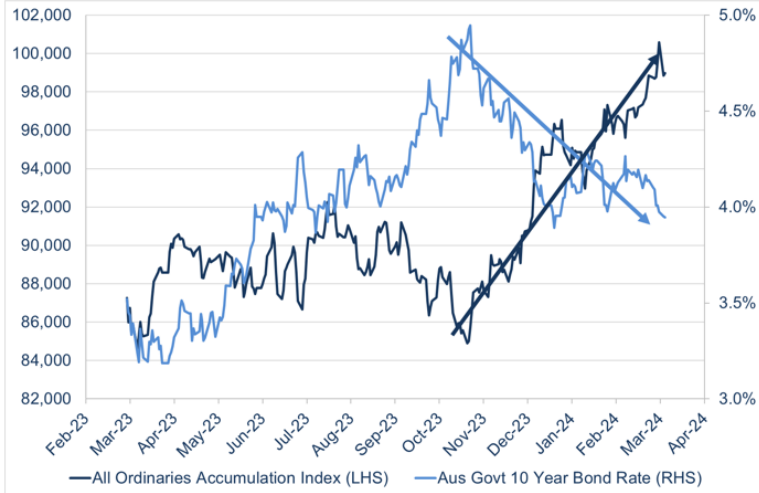


- We recently showed this chart at our AGM. US interest rates rose very quickly from 0.25% in March 2022 to 5.5% in July 2023.





## Interest rates

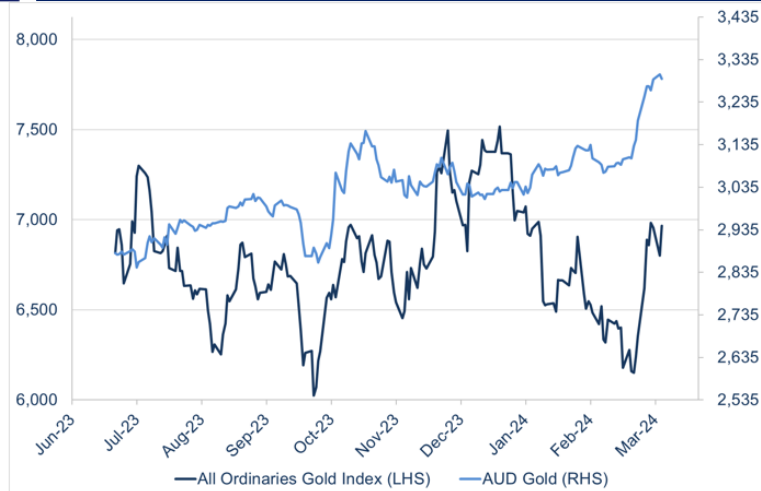


While the Australian and US central banks have not lowered interest rates, it can be seen on the above chart that 10 year bond rates (which give us an indication of where the market thinks interest rates are headed) have been in a downtrend since November 2023. The stock market has been trending up during this time.

7



## Gold vs Gold stocks



The AUD gold price has been steadily rising since the start of the financial year, but ASX listed gold miners have not performed as well.

As Ed Seykota famously said in his interview for 'Masters of the Market'; 'Commodities are the purest form of trading in the world and resource companies are a leveraged version of the same trade'.

For this reason, Gold miners should have outperformed Gold, but they have not.

8





## Corporate Activity

- Corporate Activity has increased recently, and this has helped the performance of our portfolio.
- Seven Group Holdings currently owns 72% of Boral shares, and recently bid for the remaining shares that it does not already own. The offer price is up to \$6.25 per share, compared to a pre bid share price of \$5.85.
- Alcoa recently bid for Alumina Limited in a scrip bid at a 13% premium to the Alumina share price. The Alumina board has agreed to support the takeover and has granted Alcoa a 20-day exclusivity period.
- Tietto received a takeover offer from its second largest shareholder at a 38% premium to the share price at the time. Tietto shares have continued to trade above the offer price which suggests an improved offer is likely.
- While not a bid for a company in our portfolio, we have spoken previously about the benefits of Whitehaven Coal purchasing the Blackwater and Daunia Metallurgical Coal Mines from BHP. The purchase transitions WHC into a predominantly Metallurgical Coal miner at a compelling valuation.

9



## Investment themes first half year

- Future interest rates. After a period of significant interest rate increases, the rate of increase has slowed and there is ongoing commentary about future falling interest rates.
- Rising interest rates benefit those holding cash and adversely affect those with debt. This holds true for countries holding cash balances compared to countries with large debt levels.
- Consumer stocks have done well, and showed strong resilience to higher mortgage rates, energy costs and inflation. This has surprised the market in the short term.
- Fleet management companies have seen strong growth as demand from COVID delayed supply chains reverses. MacMillan Shakespeare (MMS), Smart Group (SIQ), SG Fleet Group (SGF) and FleetPartners Group Limited (FPR) all saw strong half year results.
- As outlined above Resource and Energy stocks performed well in the first half of the financial year but have generally struggled to move higher in Q3 of this financial year despite high underlying prices and an Australian Dollar that is trending lower since reaching a high of around \$0.78 against the USD\$ 3 years ago.
- Valuations have generally expanded over the past 9 months whilst there are clear pockets of value.

10





# Whitehaven Coal (WHC) – Long (Core)

## Stock Profile WHC

### Long Position (FY25e)

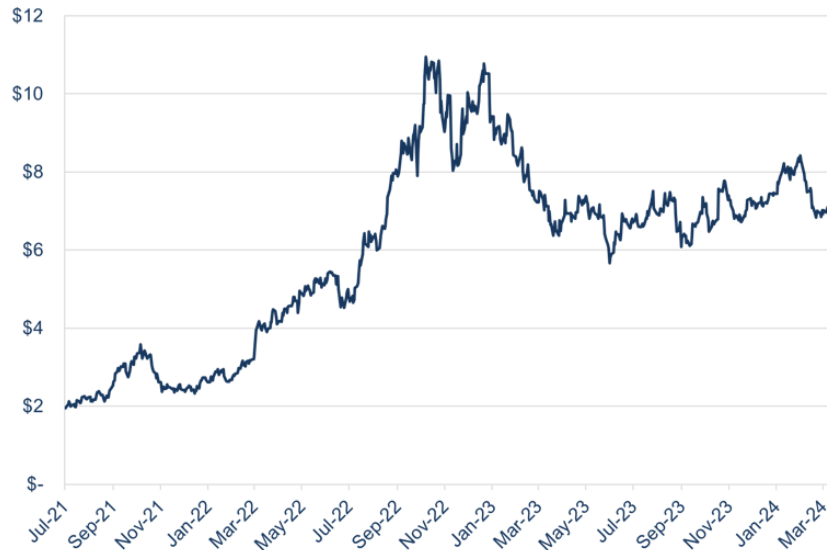
EPS Growth	53%
PE	4.8x
PEG	0.09
OCF yield	43%
FCF yield	25%
Net cash	\$1.5b
Market Cap	\$5.7b

## Fundamental Analysis

- On the 8 March Whitehaven announced that the acquisition of the Daunia and Blackwater metallurgical coal mines was now unconditional, and that the transaction is scheduled to complete on 2 April.
- The acquisition will roughly double the size of Whitehaven’s production and make it a predominantly metallurgical coal producer with approximately 70% of its revenue from metallurgical coal and 30% from thermal coal.
- Coal prices peaked after Russia invaded Ukraine. Prices have fallen from their peaks recently, but still remain high by historical standards.
- Recent studies by Wood Mackenzie and Commodity Insights both forecast that demand for both thermal and metallurgical coal is expected to increase at a time when underinvestment in new coal mines will lead to a reduction in supply.



# Whitehaven Coal (WHC)





# Meta Platforms (META US) – Long (Core)

## Stock Profile META US

### Long Position (FY24e)

EPS Growth	37%
PE	25x
PEG	0.7
OCF yield	7.4%
FCF yield	4.6%
Net cash	\$57b
Market Cap	\$1,274b

## Fundamental Analysis

- Meta’s main apps are Facebook, Instagram, Threads and WhatsApp. Meta is also heavily involved in AI.
- Meta’s 2023 full year results were released in February. Net income was USD 39.1b, up 69% compared to 2022.
- Meta’s cash flow is also very strong with operating cash flow of USD 71.1b for 2023.
- The Reality Labs division, which is focused on virtual reality, currently makes a significant loss. The losses will continue in the short term, but eventually this division will make a profit.
- If we exclude the losses in Reality Labs then Meta is on a PE of only 18 for 2024. We acquired Meta on a PE of around 8.
- Technically Meta shares have been in a strong uptrend for the past year and a half as shown on the next slide.
- Despite the strong share price rise Meta remains a compelling investment from both a fundamental and technical point of view.



# Meta Platforms (META US)







## Outlook

- We have been closely monitoring the current uptrend in interest rates. We continue to believe that this is one of the most important trends to monitor in determining the direction of future asset prices.
- Evidence began to emerge in November 2023 that interest rate increases have slowed.
- The market has had a strong run since then and the fund has invested its cash as more new investments were identified and as existing investments that continued to trend up were added to.
- Importantly, we are finding these opportunities across a wide range of sectors and geographies.
- The fund has had a good start to the 2024 financial year.
- Our Fund has displayed significantly lower than market volatility year to date resulting in good risk adjusted returns.
- We continue to focus on implementing the Cadence process that has served us well through market cycles

15



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16





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