

# **Cadence Opportunities Fund Limited**

## **(ASX Code: CDO)**

### **June 2024 Year-End Webcast**

In this year-end webcast, Karl Siegling first provides an update on the Company's full year results, the 7.0c fully franked final dividend, the portfolio's current composition and feedback from the recent reporting season. Karl Siegling and Chris Garrard then discuss the company's investments in Resolute Mining, Westgold Resources, Meta Platforms, Netflix, Alumina and Whitehaven Coal and finish off with the outlook for the rest of the year.

You can watch the webcast at <https://www.cadencecapital.com.au/cdo-june-2024-webcast/>

Regards,

Wayne Davies  
Cadence Opportunities Fund Limited



# Cadence Opportunities Fund Limited



## Full Year Results 2024

- Fund up 10.8% for the past year
- Profit after tax of \$2.3m
- Over past financial year the fund has displayed significantly lower than market volatility resulting in good risk adjusted returns.
- The top contributors to performance during the financial year were Meta Platforms, Alumina, Austin Engineering, Netflix, Capstone Copper, Westgold/ Karora and Whitehaven Coal.
- The largest detractors from performance were Sierra Rutile, Zillow, Strike Energy and Syrah Resources.
- Investing in turnaround situations, such as Meta Platforms and Netflix, was a strong driver of returns for the fund over the past financial year.
- Performance of resource companies was mixed. Investments in copper, aluminium and gold companies , such as Capstone Copper, Alumina, and Westgold Resources, performing well while investments in lithium miners performed poorly.
- Whitehaven Coal performed well after acquiring the Daunia and Blackwater coal mines from BHP at an attractive price.





## Final 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	7.0c	-	13.5c	19.5c
<b>TOTAL</b>	<b>21.5c</b>	<b>39.0c</b>	<b>3.0c</b>	<b>63.5c</b>	<b>90.7c</b>

- 7.0 cps fully franked final dividend, an increase of 0.5 cents on the interim dividend, bringing the full year dividend to 13.5 cents per share fully franked.
- The full year dividend equated to an **7.8% annualised** fully franked yield or a **11.2% gross yield** (grossed up for franking credits) based on the share price on the date of the announcement of \$1.722 per share.

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## Final Dividend - DRP

- After paying this final dividend, the Company still has 15.5 cents per share of profit reserves to pay future dividends.
- The Ex-Date for the dividend is 15<sup>th</sup> October 2024. The payment date for the dividend is 31 October 2024.
- The DRP is in operation for this final 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 3%.
- 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.

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## CDO Portfolio

### Market Cap Analysis of Portfolio (31 July 2024)

	Long	Short	Net
> AUD 1 Billion	60.7%	-6.7%	54.0%
AUD 500 Mill - AUD 1 Billion	5.9%		5.9%
AUD 250 Mill - AUD 500 Mill	17.4%		17.4%
AUD 100 Mill - AUD 250 Mill	1.6%		1.6%
0 - AUD 100 Mill	5.7%		5.7%
	<b>91.3%</b>	<b>-6.7%</b>	<b>84.6%</b>
Net Cash Holdings and Tax Asset			15.4%

- CDO has a liquid and diversified portfolio
- The company holds 46 positions with the largest position 6% of the fund.
- Over past few months we have been sitting on larger than normal cash balances.

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

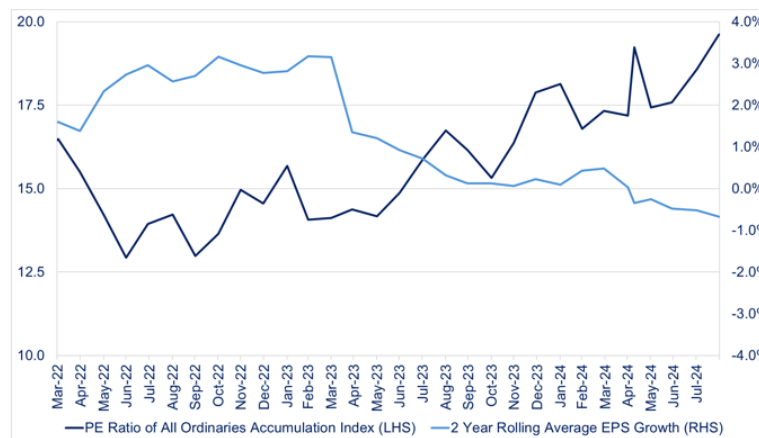
Stock Code *	Position
ANG	Austin Engineering Ltd
BHP	BHP Group Ltd
BPT	Beach Energy Ltd
BSE	Base Resources Ltd
COE	Cooper Energy Ltd
CS CN	Capstone Copper Corp
EVN	Evolution Mining Ltd
KRR CN	Karora Resources Inc
META US	Meta Platforms Inc
NFLX US	Netflix Inc
ORG	Origin Energy Ltd
QBE	QBE Insurance Group Ltd
RBX CN	Robex CN
RED	Red 5 Ltd
RPL	Regal Partners Ltd
RSG	Resolute Mining Ltd
SUN	Suncorp Group Limited
UUUU US	Energy Fuels Inc
WGX	Westgold Resources Ltd
WHC	Whitehaven Coal Ltd

\* In Alphabetical Order

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## Fund update/ reporting season feedback



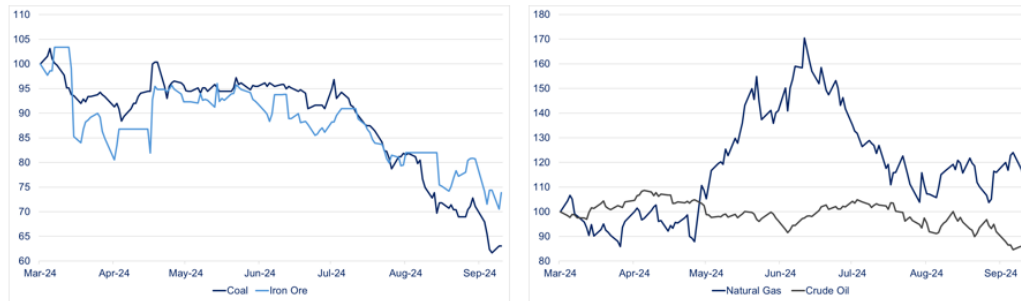
- Lots of stocks are not meeting our fundamentals - PE expansion on limited to no earnings growth, unfavourable peg ratios and most often unfavourable cashflow multiples
- Lots of high PE companies with single digit growth rates.

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## Energy and Material Stocks have 'rolled'

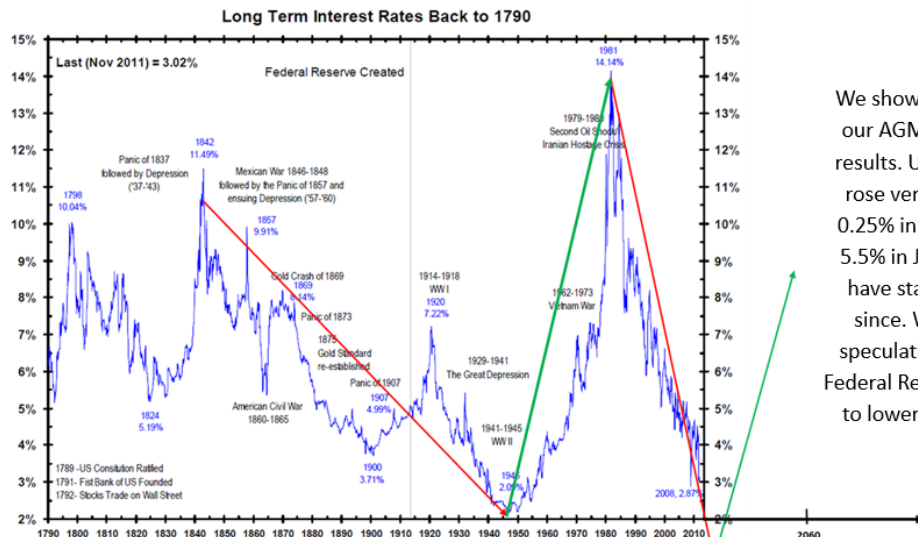


- Energy and materials stocks rolled significantly during last two months as indications of significant Chinese slowdown emerged. This slowdown is particularly important for steel and its constituents iron ore and coal ( amongst Australia largest exports). This follows on for the base metals, oil and gas as well.
- Gold continued to rally throughout reporting season as the US continues to issue debt.
- The market will be watching closely to see whether the resources and energy rollover is a lead indicator for the broader economy or not.
- These moves affect Australia's 3 largest exports: coal, LNG and petroleum products and iron ore.

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## Interest rates



We showed this chart at our AGM and half-year results. US interest rates rose very quickly from 0.25% in March 2022 to 5.5% in July 2023. They have stayed the same since. We have seen speculation that the US Federal Reserve may begin to lower interest rates.

Source: What Drives The Bond Market?  
Chicago CFA Handout by [Bianco Research LLC](#)  
January 18, 2011'''

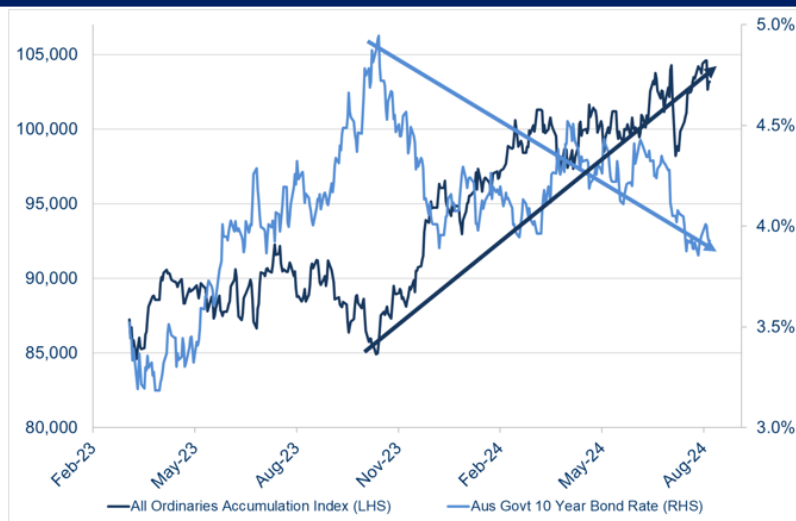
Added by Cadence Asset Management: Red and Green Trend lines  
July 25, 2022

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## Interest rates

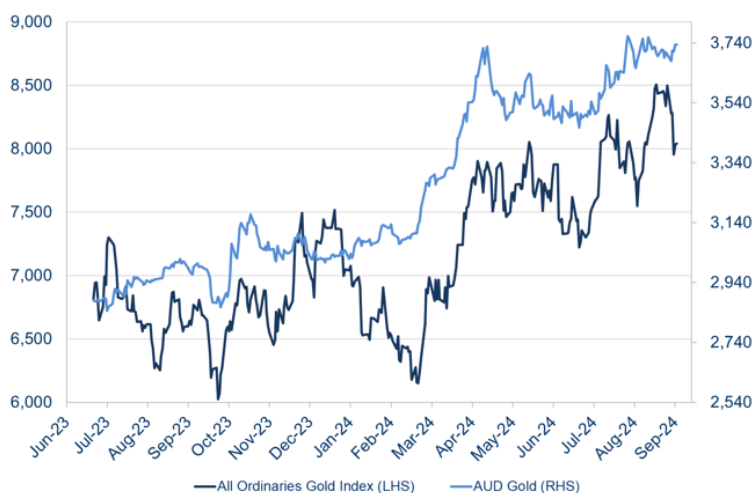


- While the Australian and US central banks have not lowered interest rates, it can be seen on the above chart that 10 year bond rates (which give us an indication of where the market thinks interest rates are headed) have been in a downtrend since November 2023. The stock market has been trending up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

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## Gold vs Gold stocks



The AUD gold price has been steadily rising since the start of last 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.

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## Resolute Mining (RSG) – Long (Core)

### Stock Profile RSG

#### Long Position (FY25e)

EPS Growth	60%
PE	6.9x
PEG	0.12
OCF yield	20.2%
FCF yield	14.5%
Net cash	\$57m
Market Cap	\$1.4b

### Fundamental Analysis

- Resolute's share price is up 27% so far this financial year.
- This is partially due to a 7% increase in the gold price, as well as continued good operational performance with the company producing 91 koz of gold in the 2nd quarter, up 19% compared to the previous quarter.
- In our recent quarterly webcasts (including this one) we have also spoken about how the share price of gold companies has failed to match the performance of gold itself, even though gold companies are leveraged to the gold price.
- We believe that part of Resolute Mining's good performance so far this financial year is the share price essentially playing 'catch up' on the gold price increases that we have seen over the past year.
- This 'catch up' is not complete, with Resolute Mining trading on a 2025 PE of 6.9 times which is well below historical norms for gold mining companies.

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## Resolute Mining (RSG)



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## WestGold Resources (WGX) – Long (Core)

### Stock Profile WGX

#### Long Position (FY25e)

EPS Growth	70%
PE	8.5x
PEG	0.12
OCF yield	18%
FCF yield	14%
Net cash	\$182m
Market Cap	\$2.7b

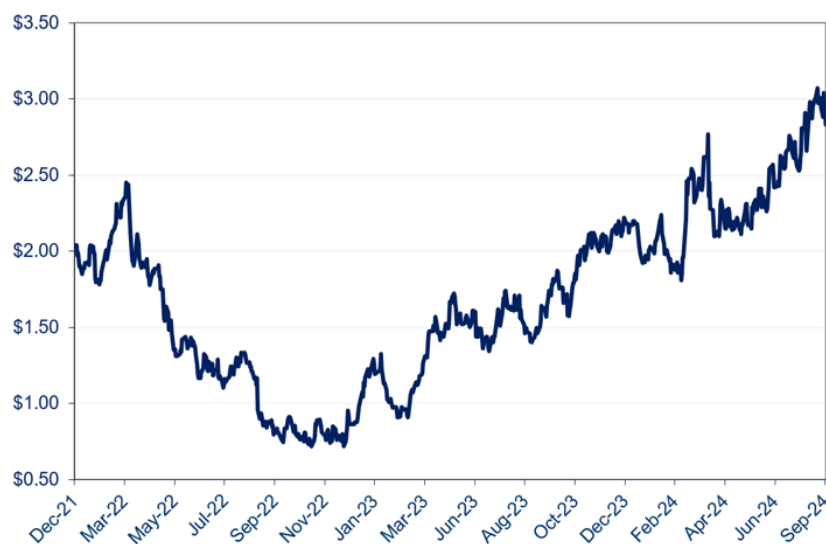
### Fundamental Analysis

- We have been adding to our WGX position following management's successful turnaround of the gold operations, delivering improved earnings.
- WGX has recently completed its merger with Karora Resources, taking its gold production from ~225koz per annum to around 500koz per annum.
- This makes WGX the fourth largest gold producer in Australia with a relatively low cost of production when compared to similar mid-cap listed gold companies in Australia.
- WGX management are undergoing a capex program that could potentially expand its resources.
- WGX's gold production is fully unhedged and strongly benefits from rising gold prices.
- WGX has a good management team that has under promised and delivered, and the company has a strong balance sheet.

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## WestGold Resources (WGX)



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

### Stock Profile META US

#### Long Position (FY24e)

EPS Growth	45%
PE	24x
PEG	0.5
OCF yield	6.8%
FCF yield	4.3%
Net cash	\$47b
Market Cap	\$1.3t

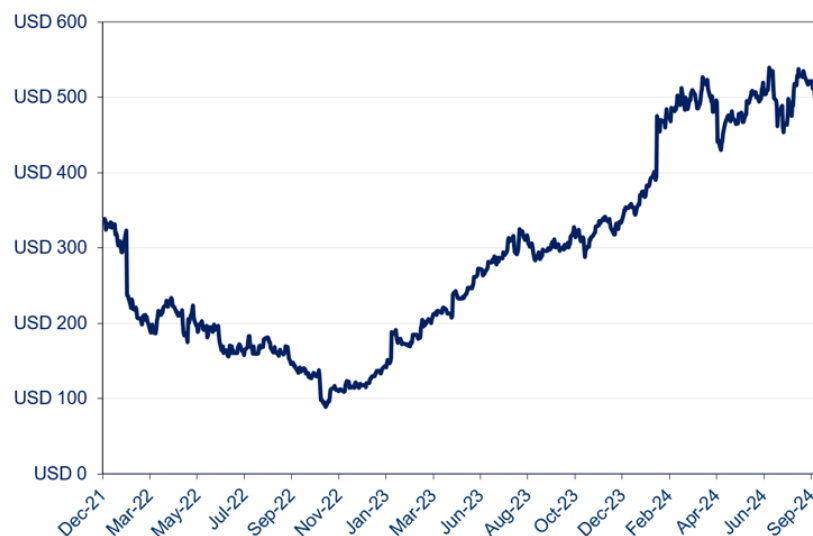
### Fundamental Analysis

- Meta Platforms shares were up over 75% during the last financial year.
- The benefits from Mark Zuckerberg's "year of efficiency" as well as improved revenue from advertisers drove net income of \$45.8b for the last 12 months, more than double the \$21.4b earned in the 12 months prior to that.
- There have been concerns from some investors that young people are using Facebook less, but on the most recent results call Mark Zuckerberg said that Meta is seeing good results on their efforts to get more 18 to 29 year olds using Facebook.
- He also said that user growth in the US was a "bright spot".
- Even after the share price rise Meta is on an undemanding PE ratio of 24 times with good growth prospects.
- Meta is currently investing heavily in AI and is well positioned to benefit from its integration into Facebook, Instagram, and WhatsApp.

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## Meta Platforms (META US)



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## Netflix (NFLX US) – Long (Core)

### Stock Profile NFLX US

#### Long Position (FY24e)

EPS Growth	57%
PE	33.5x
PEG	0.6
OCF yield	2.7%
FCF yield	2.5%
Net debt	\$7.4b
Market Cap	\$301b

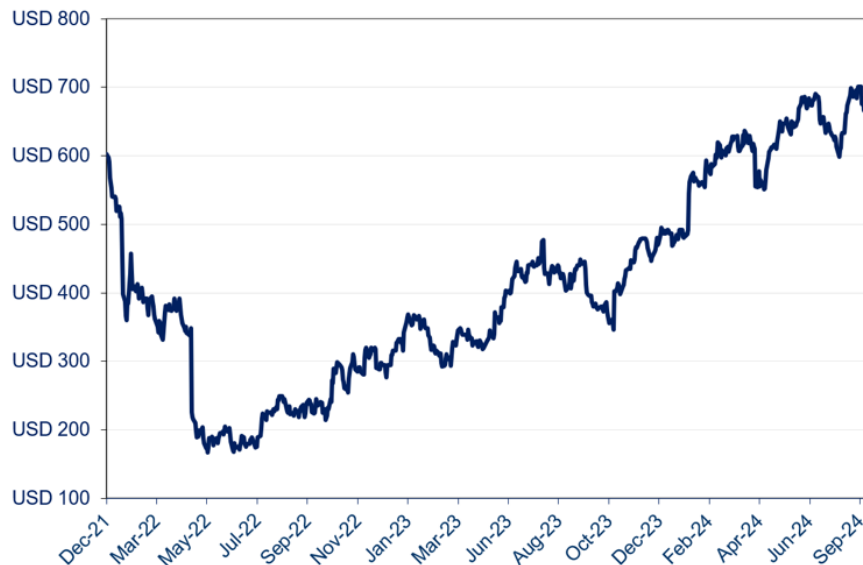
### Fundamental Analysis

- Netflix continues to perform well. Over the past year Netflix has benefited from a focus on reducing password sharing, as well as the introduction of ad supported plans that are cheaper for subscribers but are expected to be just as profitable as ad free plans for Netflix.
- These initiatives have driven continued subscriber growth, and the Netflix share price rose more than 50% last financial year.
- On the next chart we can see that the Netflix share price is in a strong uptrend that began in the middle of 2022.
- We are confident that Netflix can continue to achieve excellent growth. They are the market leader in subscription video streaming and have excellent economies of scale. The extra cost to Netflix of adding a subscriber is very small, so most of the revenue from new subscribers drops directly to the profit line.

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## Netflix (NFLX US)



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## Alumina (AWC) – Long (Core)

### Stock Profile AWC

#### Long Position (FY25e)

EPS Growth	440%
PE	14x
PEG	0.03
OCF yield	15%
FCF yield	10%
Net debt	\$1.3b
Market Cap	\$8.3b

### Fundamental Analysis

- During the last financial year Alumina agreed to a takeover from Alcoa.
- The takeover consolidated the Alcoa and Alumina joint venture assets into a single entity, removing unnecessary complexity in the ownership structure.
- The consolidated entity, Alcoa Corporation, is dual listed on the NYSE (AA US) and on the ASX (AAI).
- Alcoa is a very cyclical business that is going through a turnaround, going from a USD\$400m loss in FY23 to an expected FY24 profit of over USD\$100m and over USD\$550m in FY25.
- Alcoa is focused on improving production/stability, improving costs and selling off one of its uneconomical assets.
- The turnaround is supported by strong Aluminum and Alumina prices, which have risen due to demand from China, North America & Europe for its critical use in the energy transition.
- Since year end the fund has sold its position in AA US/AAI

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## Alumina (AWC)



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## Whitehaven Coal (WHC) – Long (Core)

### Stock Profile WHC

#### Long Position (FY25e)

<b>EPS Growth</b>	<b>101%</b>
<b>PE</b>	<b>7.2x</b>
<b>PEG</b>	<b>0.07</b>
<b>OCF yield</b>	<b>27%</b>
<b>FCF yield</b>	<b>21%</b>
<b>Net cash</b>	<b>\$0.1b</b>
<b>Market Cap</b>	<b>\$5.1b</b>

### Fundamental Analysis

- On the 2 April Whitehaven completed the acquisition of the Daunia and Blackwater metallurgical coal mines.
- The acquisition roughly doubled the size of Whitehaven's production and made it a predominantly metallurgical coal producer with approximately 70% of its revenue from metallurgical coal and 30% from thermal coal.
- On the 22 August Whitehaven sold a 30% share of the Blackwater mine for US\$1.08 billion, a 13% increase in valuation on what the company paid for both the Daunia and Blackwater mines. Whitehaven retains 70% and will be the manager of the joint venture.
- Coal prices have begun to turn downwards following recent economic updates from China. However, structural shortfalls in thermal and metallogical coal are expected over the longer term. The fund has substantially reduced its position.

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## Whitehaven Coal (WHC)



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## Outlook

- We expect asset and commodity price volatility to remain high in the coming months.
- Growth in China appears to be slowing with the property sector dragging on the economy and causing weak consumer and investor confidence. Household consumption and industrial manufacturing is contracting, impacting industrial commodities and other raw materials.
- Industrial commodities were volatile through reporting season and have begun to roll over following news about China's growth.
- The U.S. Government continues to issue USD \$1 trillion of new debt every 100 days. The results of the election will not change this. Both political parties appear locked into this trend.
- Investors are looking for safety in gold, which continues to make record new highs.
- Interest rates are mooted to be falling in USA faster than in Australia. Australia was slower to raise interest rates than USA and they are uncharacteristically low in Australia compared to the USA.
- The hunt for yield continues with an emerging private credit fund "bubble". Regulators are warning investors following a significant increase in private credit fund managers looking to get their hands on the large flows into private credit assets and charge high management fees.
- Green energy transition momentum appears to have slowed due to increasing costs, long approval processes and grid integration problems.

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