KINGFISH

LANDING TOMORROW'S TROPHIES

QUARTERLY NEWSLETTER

1 July 2021 – 30 September 2021

Share Price	KFL NAV	PREMIUM[1]
$2.03	$1.88	8.0%

as at 30 September 2021

Kingfish delivered a solid return, with an Adjusted NAV Return of +8.5% over the September quarter, as compared with our benchmark, the S&P/NZX50G index, which was up 4.9% for the period.

Mainfreight was the standout performer in the September quarter. On 1 September, the company released another trading update. That was the eighth detailed update in the past 18 months, compared to three trading updates per year normally. Unique times call for unique transparency which reflects the company's quality management team.

This update showed a strong acceleration in performance, with weekly average profit before tax increasing from $6.2 million (weeks 1–17) to $7.3 million (weeks 18–22).

The company is helping its Air & Ocean freight customers navigate extreme disruption to supply chains – this presents the opportunity to add greater value with commensurate rewards. We trimmed our position slightly during the month as the share price has been very strong on the back of index changes.

A strong balance sheet can support growth

We prefer companies with strong balance sheets versus those carrying excessive debt. Good business models shouldn't need to take on too much debt to deliver attractive returns.

Vista's cash reserves allowed it to emerge from COVID a stronger company

Vista shares performed strongly during the September quarter as moviegoers continue to return to cinemas in its key markets of the US and Europe. Box office figures in August and September have steadily improved towards pre-pandemic levels. And the film release schedule is strong, starting with the latest James Bond movie in October. This should further support the recovery for Vista's customers. In China, The Battle at Lake Changjin, broke single-day box office record during the national holiday. The movie recorded 1.5 billion yuan (over NZ$300m) at the box office in 4 days. People want to go to the movies again!

But it's worth rewinding to remember what happened and reflect on the opportunity that was available.

It's hard to believe that at one stage last year almost every movie theatre in the world was closed. This has not happened since the first movie theatre in the world opened over a century ago, although the Spanish flu did close some cinemas. In San Antonio in 1919, the local paper reported that each theatre was supposed to assign a man 'who shall have as his sole business the spotting of any person in the audience who coughs.'

From March 2020, many cinemas paused paying their fees to Vista as they were closed and in a battle for survival. This put the company's financial position and share price under stress. But we knew that most cinemas normally generate positive cash flows even at a reduced level of admissions. And movie theatres are specialised real estate that cannot easily be refitted for another use. This means that landlords or lenders are not keen to put cinema operators into receivership, as the underlying assets do not have much value. So we thought the prospect of large scale closures of cinemas was unlikely.

Going to the movies is a relatively affordable form of out-of-home entertainment. Vista is the global leader in its field and its product is essential to cinemas' day-to-day operations, so we were convinced Vista would survive and thrive when cinemas inevitably re-opened.

Vista raised capital early in the pandemic. This was critical. It solved the company's financial-position headache and allowed it to navigate the pandemic with clear eyes. We were able to participate at $1.05, which represented a large discount to our assessment of the company's intrinsic value. The share price finished September 158% higher than this at $2.71.

The company doubled down on focusing on its customers. It launched software upgrades that could deal with socially distanced seating as cinemas re-opened, and promoted its mobile ticketing products to late adopters. It forged ahead with Vista Cloud, its software-as-a-service product that can reduce customers' hardware and IT support costs. Vista Cloud increases the size of Vista's recurring revenue and earnings pie. It could only do this because of its strong balance sheet.

Summerset's more comfortable debt levels have helped it outperform Ryman

Retirement village operators Ryman and Summerset have both delivered attractive long-term returns. But since 2014 Summerset has outperformed Ryman by around 200% with over half of this coming in the last two years.

Why?

We think the over-riding reason has been Summerset's ability to balance growth with debt levels and project risk management. To grow, Summerset has continually added to its landbank. This can put strain on the balance sheet, with bare land taking 4–10 years to generate income. To manage risk, Summerset has focused on low-density sites that are easier to build, faster to generate income, and tie up less capital. This has kept debt balances in check, allowing Summerset to pursue growth on many sites at once. With a strong landbank and low levels of debt, Summerset can maintain a smooth, sustainable increase in its number of units built each year.

Ryman has a strong track record in development and the largest operator in the industry. But to grow an ever-larger asset base, Ryman has increasingly focused on big, complex sites in dense urban areas. These sites are often multi-level, with added consenting and construction complexity and greater risk of delays. Ryman has tied up people and capital in these projects, leading to lower land-banking, higher debt, and missed some of its growth targets. That said, we don't think Ryman has lost its mojo – its project management has improved and Ryman leads the industry in complex developments.

Summerset may be closing the gap on Ryman, but we continue to believe both operators have a long runway for growth ahead, particularly in Australia.

Sam Dickie
Senior Portfolio Manager
15 October 2021

[1] Share price Premium to NAV (using NAV to four decimal places).

SIGNIFICANT RETURNS IMPACTING THE PORTFOLIO DURING THE QUARTER

MAINFREIGHT	RYMAN HEALTHCARE	SUMMERSET	VISTA GROUP	AUCKLAND INTERNATIONAL AIRPORT
+27%	+15%	+14%	+13%	+8%

PERFORMANCE
as at 30 September 2021

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	+2.3%	+25.7%	+19.8%
Adjusted NAV Return	+8.5%	+18.3%	+16.0%
Portfolio Performance			
Gross Performance Return	+9.4%	+21.5%	+18.8%
S&P/NZX50G Index	+4.9%	+12.4%	+12.5%

Non-GAAP Financial Information
Kingfish uses non-GAAP measures, including adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

» adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions after expenses, fees and tax,

» adjusted NAV return – the net return to an investor after expenses, fees and tax,

» gross performance return – the Manager's portfolio performance in terms of stock selection, before expenses, fees and tax, and

» total shareholder return – the return combines the share price performance, the warrant price performance, the net value of converting any warrants into shares, and the dividends paid to shareholders. It assumes all dividends are reinvested in the company's dividend reinvestment plan, and that shareholders exercise their warrants, (if they were in the money), at warrant expiry date.

All references to adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return in this newsletter are to such non-GAAP measures. The calculations applied to non-GAAP measures are described in the Kingfish Non-GAAP Financial Information Policy. A copy of the policy is available at http://kingfish.co.nz/about-kingfish/kingfish-policies/

PORTFOLIO HOLDINGS SUMMARY
as at 30 September 2021

LISTED COMPANIES	% Holding
Auckland Intl Airport	9.2%
Contact Energy	4.0%
Delegat Group	2.9%
Fisher & Paykel Healthcare	14.5%
Freightways	3.4%
Infratil	14.9%
Mainfreight	20.3%
Meridian Energy	1.3%
Port of Tauranga	2.3%
Pushpay Holdings	1.4%
Ryman Healthcare	4.9%
Summerset	9.1%
The a2 Milk Company	3.8%
Vista Group International	4.3%
Equity Total	**96.3%**
New Zealand dollar cash	3.7%
TOTAL	**100.0%**

COMPANY NEWS
Dividend Paid 24 September 2021

A dividend of 3.52 cents per share was paid to Kingfish shareholders on 24 September 2021 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 41% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on (09) 488 8777.

FOREIGN TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARD (CRS)

As a result of the New Zealand Government agreeing to participate in the exchange of information with other jurisdictions under the Foreign Tax Compliance Act (FATCA) and Common Reporting Standard (CRS), Financial Institutions are required to undertake due diligence to determine the account holders' jurisdiction of tax residence. All shareholders will have received a Tax Residency Self-Certification form from Computershare depending on when they first purchased their securities. Please ensure you complete and return this important document if you have not already done so. For more information please visit the IRD website: https://www.ird.govt.nz/international-tax/exchange-of-information/crs/registration-and-reporting or contact Computershare if you are unsure of whether you have completed your form.

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