

Monash Absolute Investment Company Limited

**Monash Absolute Investment Company Limited (ASX: MA1)
August 2017 End of Month Update**

5th September 2017

In the interests of keeping the market fully informed of performance on a timely basis, we release a preliminary estimate of the Pre-Tax Net Tangible Asset Backing per share. It is only a guide, the official NTA will be released later in the month. We estimate that, as at 31 August 2017 the NTA Pre-Tax was \$0.8862.

Company Strategy

The Monash Absolute Investment Company offers investors access to an investment strategy that seeks to:

- achieve a targeted positive return over a full investment cycle; and
- avoid a negative return each financial year

The Company is benchmark unaware, style and stock size agnostic, both long and short, and only invests in compelling opportunities. In keeping with the Company's absolute return objectives, if the investment manager cannot find stocks that meet the very high return hurdle requirements, the Company will preserve that capital in cash at bank.

Monthly Commentary

The portfolio's pre-tax NTA increased 1.15% (after fees) for the month of August, during which the S&P/ASX200 rose 0.71% and the Small Ords rose 2.71%. This is the fourth month in a row that our change in NTA has beaten the ASX200.

During the month, 256,400 shares were bought back under the share buyback. A total of 1,004,352 shares have now been bought back at a discount to NTA.

Almost all the companies held in the portfolio announced results in August. Of the 20 Outlookⁱ Stocks (Long) that reported, 45% beat expectations, 45% were in line, and 10% missed. This was better than the market, with stockbroker Morgans calculating out of 156 companies they tracked 21% beat, 55% were in line, and 24% missed.

Our two Outlook Stocks (Short), Coca-Cola Amatil (down 2% for the month) and Sky Network Television (down 17%) continued their pattern of poor results, which positively contributed to performance.

Company at a Glance 31 August 2017

ASX Code - Shares	MA1
ASX Code - \$1 Options Sep17	MA1O
Portfolio Size	\$45.7m
Share Price	\$0.77
Option Price	\$0.001
Shares on Issue	51.5m

Portfolio Structure 31 August 2017

Outlook Stocks (Long)	21 Positions	73%
Outlook Stocks (Short)	2 Positions	-5%
Event, Pair and Group (Long)	5 Positions	16%
Event, Pair and Group (Short)	0 Positions	0%
Cash		15%
TOTAL		100%
Gross Exposure		94%
Net Exposure		85%

Estimated NTA (unaudited) 31 August 2017

Estimated NTA Pre Tax	\$0.8862
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Return Estimate to 31 August 2017

	NTA Pre Tax
1 Month & FYTD	1.15%
3 Months	3.33%
6 Months	0.69%
1 Year	-8.66%
Since Inception p.a.	-5.82%

For more information about the Company and the strategy, please refer to the Monash Investors website at www.monashinvestors.com. You can also [follow us on Livewire here](#) or subscribe to our updates here

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Highs

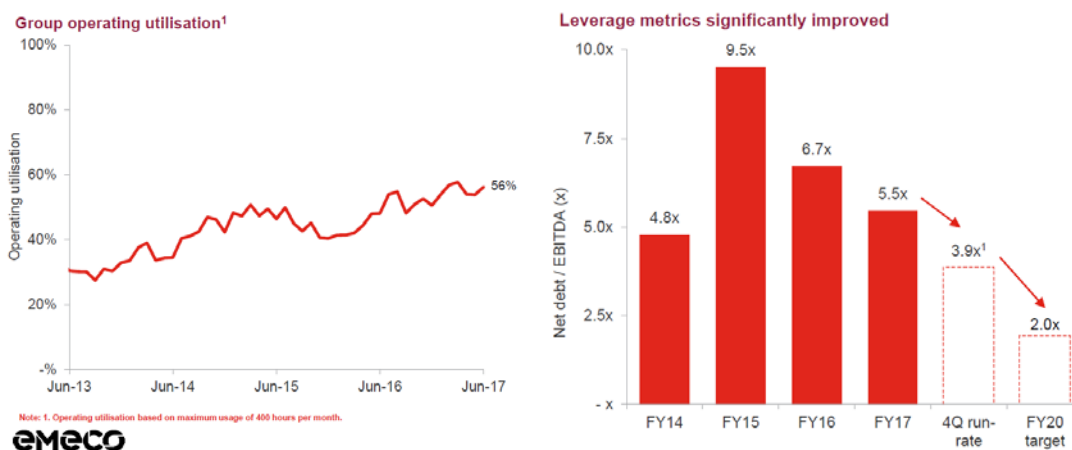
Emeco Holdings Limited (ASX: EHL) rose 29% in August. EHL is a recent addition to the portfolio and was the best contributor to return this month.

Emeco leases heavy earthmoving equipment to mining companies and their contractors. It is the largest company of its type in Australia. With mining activity beginning to pick up again, the demand for “yellow” trucks, diggers and dozers is picking up.

The mining vehicle leasing industry is highly cyclical, and has both operational and financial leverage. Following the resources cycle bust, mining contractors handed back their vehicles and there was a glut. Lease rates collapsed and fleets had low rates of utilization. The price of second hand vehicles collapsed too, leading to large write-downs.

It was a near death experience for Emeco and its competitors, who went into losses. Emeco’s stock price collapsed. Four years later, there has been debt for equity swaps, industry consolidation and the glut of vehicles is no more.

In the next couple of years, we expect that Emeco’s fleet utilization and lease rates should return to levels that are more normal. With its balance sheet on the path to recovery, and facing a less competitive environment, Emeco will see its profitability increase from the current depressed levels. It is a great exposure to a recovery in mining services because unlike mining contractors it carries minimal project execution risk.

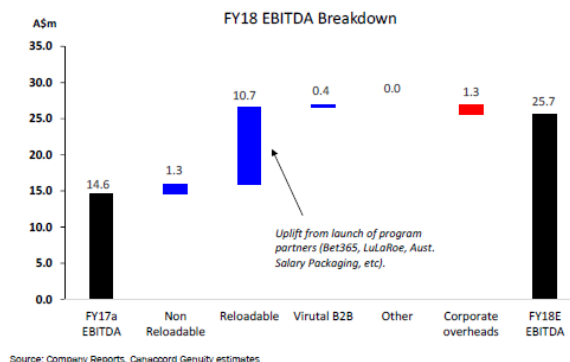
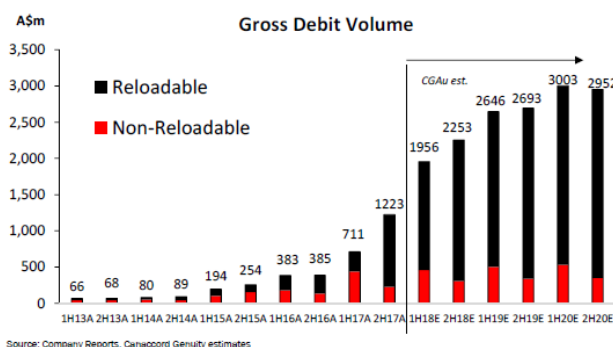


EML Payments Limited (ASX: EML) rose 14% in August.

EML continues to penetrate quickly the US market with its transaction cards and payment solutions. Following its results announcement, analysts upgraded revenue and earnings numbers for FY18 and FY19. The nature of its business is such that it can provide visibility to likely revenues over time, given an existing level of gross debit volumes. This reduces analyst uncertainty in forecasting earnings growth in future years.

EML is expected by analysts to see EBITDAⁱⁱ almost double in FY18 and further momentum into FY19 as major contracts scale up.

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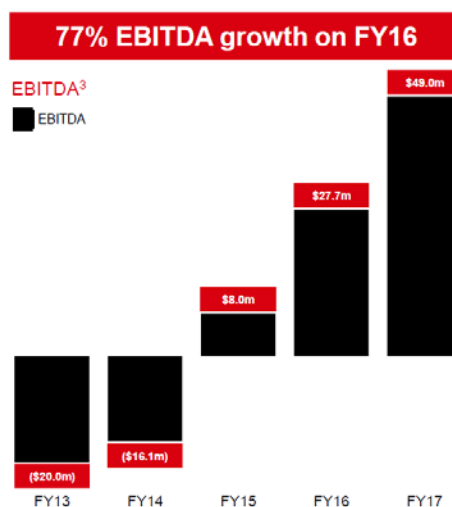
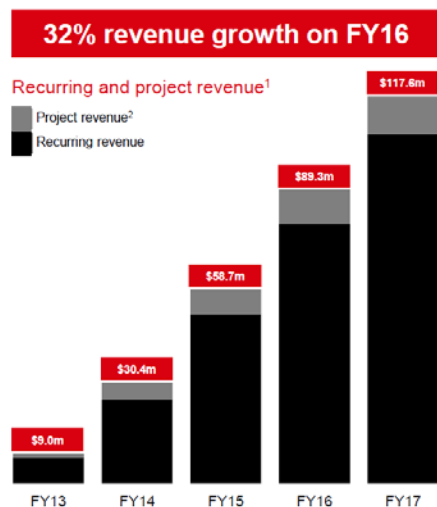
NEXTDC Limited (ASX: NXT) rose 11% in August.

NXT owns Australia's largest network of neutral colocation data centres.

NXT reported a strong result, at the top-end of guidance with 38% revenue growth falling through to 77% EBITDA growth. Operating cash flow increased 69%, and lower Capex saw NXT end the period with cash and liquids of A\$368m.

However, it was the news of near term hyper-scale colocation contracts, the announcement of additional capacity, and a reduction in fit-out costs that excited the market. The new builds are broadly on track – not only will fit-out costs be 10-15% cheaper, but the new Data Centres will be Australia's first Tier IV, 5.0 star energy efficient, UTI Gold certified data centres – creating a serious competitive advantage. The operating environment remains very strong, with the biggest tender pipeline the company has ever seen.

Strong revenue and EBITDA growth



1. Data centre services revenue excludes interest and data centre development revenue
 2. Project revenue includes one-off setup costs for new customer fitouts, standard establishment fees for new services, remote hands and other services
 3. FY13 and FY14 EBITDA excludes building development profit, APDC distributions and fund raising advisory fees

NEXTDC FY17 Results

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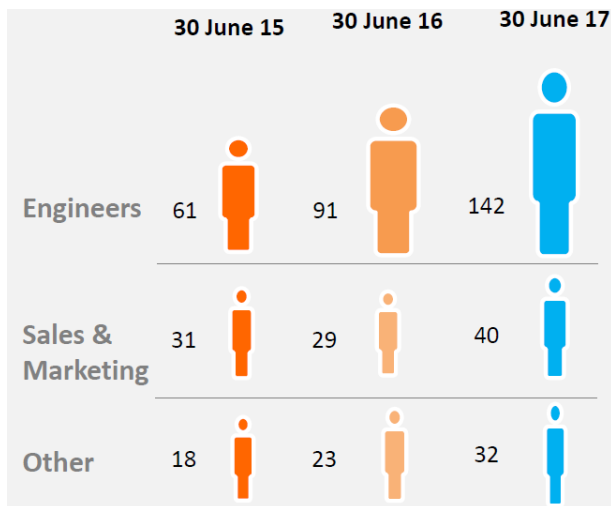
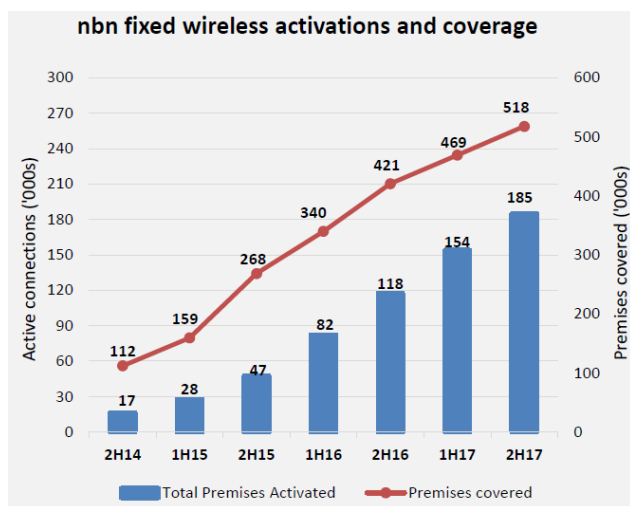
Lows

Netcomm Wireless Limited (ASX: NTC) fell 17% in August.

Netcomm's Fixed Wireless device is being rolled out by the NBN. NBN customers who use it have the highest satisfaction rating of all NBN users, and a similar device being provided by Netcomm is now being rolled out by AT&T in the USA. In order to improve customer experience, the NBN is also expanding its use of Netcomm's fibre to the curb (FTTC) device in preference to its original fibre to the node (FTTN) strategy, and confirmed last week an increase from 700,000 to 1,000,000 in the number of premises that will be covered by it. With these major contracts underway, Netcomm is expected to have a substantial lift in revenues and earnings in FY18 and beyond.

While NTC reported beyond the upper end of analyst expectations, there were two reasons why the stock price fell. First, lack of specific guidance for FY18 beyond stating "strong growth in Revenue and EBITDA, with growth accelerating in 2H18." Second, the admission that two contracts that were expected to be won in FY17 were no longer being pursued.

Netcomm has built up a large engineering team in order to win new bespoke contracts, and it needs to develop a diversified portfolio of these type of clients over time to justify the expense. We will be monitoring their progress closely as it is a key element of our investment thesis.



Silver Chef Limited (ASX: SIV) fell 15% in August.

SIV provides rental and financing of commercial equipment to small and medium businesses.

Despite SIV being very upbeat about its performance, it was the portfolio's biggest "miss" of the results season. NPAT was \$22.5m vs guidance \$23m - \$25m and they guided the following year to +10% growth, rather than +15% growth, due to the staff cost involved in running down the "Go Getta" commercial vehicle book (as opposed to the main Silver Chef brand, which is focussed on the hospitality sector).

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We expect that analysts have underestimated the future growth from Canada. Further, in the past, the company has needed to raise capital every 18 months to support the growth in its balance sheet, which has justifiably depressed its PE rating. However, they are about to securitise and sell some assets in order to recycle capital. This will likely push out the need for any further capital raising for at least 3 years. The stock is cheap, being back to its lowest valuation multiple in 5 years.

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ⁱ Outlook Stocks (both Long and Short Positions) are securities in the Investment Manager's view, whose current valuation does not reflect the future earnings potential of the business.

ⁱⁱ EBITDA is earnings before tax, depreciation and amortization and is a measure of a company's operating performance.