

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

In this half-year audiocast, Karl Siegling firstly provides an update on the Company's performance, the upcoming 7.5c fully franked interim dividend and the current composition of the portfolio. Jackson Aldridge then discusses some of the Company's current investments. Karl Siegling finishes with the outlook for the rest of the year.

You can listen to the audiocast at **<https://www.cadencecapital.com.au/cdo-dec-2022-webcast/>**



Cadence Opportunities Fund Limited

Half-Year Audiocast



CADENCE
OPPORTUNITIES FUND



Performance Update

Gross Performance* to 31st January 2023	CDO
1 Month	7.1%
YTD	9.1%
1 Year	-3.5%
2 Years (per annum)	14.7%
3 Years (per annum)	37.0%
Since Inception (per annum)	35.6%
Since Inception (4.1 years) (total return)	247.1%

* Gross Performance: before Management and Performance Fees

- Year to date the fund is up 9.1%
- Past two years fund is up 14.7% per annum
- Top contributors to performance for the half year were Whitehaven Coal, Terracom, New Hope, AMP, BHP, Syrah Resources, Novonix and Tietto Minerals.
- The largest detractors from performance were Renascor Resources, City Chic Collective, Life360, Fortescue Metals and NVIDIA.



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Half Year Dividend

- 7.5c fully franked Interim Dividend.
- Annualised yield of 6.5% fully franked (9.2% gross including franking) based on share price of \$2.32 on date of the announcement.
- After paying this dividend the Company still has more than 36 cents per share of profits reserves to pay future dividends.
- Dividend Reinvestment Program (DRP) is operational for the half year dividend.
- Issue price of DRP will be at a 3% discount.
- Ex-date is 14th April 2023, Payment date is 28th April 2023.

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CDO Holdings as at 31 January 2023

Stock Code	Position	Direction	Exposure	Stock Code	Position	Direction	Exposure
1112 HK	Health & Happiness International	Long	AUD	NAB	National Australia Bank Ltd	Short	AUD
360	Life360 Inc	Long	AUD	NCM	Newcrest Mining Ltd	Long	AUD
700 HK	Tencent Holdings	Long	AUD	NFLX US	Netflix Inc	Long	AUD
9988 HK	Alibaba Group Holding Ltd	Long	AUD	NHC	New Hope Corp Ltd	Long	AUD
A2M	A2 Milk Co Ltd	Long	AUD	NHY NO	Norsk Hydro ASA	Long	AUD
ADT	Adriatic Metals PLC	Long	AUD	NIC	Nickel Industries Ltd	Long	AUD
AJL	AJ Lucas Group Ltd	Long	AUD	NWL	Netwealth Group Ltd	Short	AUD
AKE	Allkem Ltd	Long	AUD	NXT	Nextdc Ltd	Short	AUD
ANZ	Australia & New Zealand Group	Short	AUD	PINS US	Pinterest Inc	Long	AUD
AQC	Australian Pacific Coal Ltd	Long	AUD	PLS	Pilbara Minerals Ltd	Long	AUD
BCB	Bowen Coking Coal Ltd	Long	AUD	PMET CN	Patriot Battery Metals Inc	Long	AUD
BGL	Bellevue Gold Limited	Long	AUD	PMT	Patriot Battery Metals Inc	Long	AUD
BHP	BHP Group Ltd	Long	AUD	QAN	Qantas Airways Ltd	Long	AUD
CBA	Commonwealth Bank of Australia	Short	AUD	QBE	QBE Insurance Group Ltd	Long	AUD
CCX	City Chic Collective Ltd	Long	AUD	RED	Red 5 Ltd	Short	AUD
CHN	Chalco Mining Ltd	Long	AUD	RFG	Retail Food Group Ltd	Long	AUD
CLG	Close The Loop Ltd	Long	AUD	RMC	Resimac Group Ltd	Long	AUD
COI	Comet Ridge Ltd	Long	AUD	RMD	Resmed Inc	Long	AUD
CRN	Coronado Global Resources	Long	AUD	RNU	Renascor Resources Ltd	Long	AUD
CS CN	Capstone Copper Corp	Long	AUD	SBM	St Barbara Ltd	Long	AUD
CXO	Core Lithium Ltd	Short	AUD	SGR	Star Entertainment Group Ltd	Long	AUD
DAC US	Danaco Corp	Short	AUD	SMR	Stanmore Resources Ltd	Long	AUD
DMP	Domino's Pizza Enterprises Ltd	Long	AUD	SRX	Sierra Rutile Holdings Ltd	Long	AUD
DVP	Develop Global Ltd	Long	AUD	SYA	Sayona Mining Ltd	Short	AUD
DYL	Deep Yellow Limited	Long	AUD	SYR	Syrah Resources Ltd	Long	AUD
GHY	Gold Hydrogen Ltd	Long	AUD	TER	Terracom Ltd	Long	AUD
GNW US	Genworth Financial Inc	Long	AUD	TEVA US	Teva Pharmaceutical Industries	Long	AUD
IREN US	Iris Energy Ltd	Long	AUD	TGH US	Textainer Group Holdings Ltd	Short	AUD
KAR	Karoon Energy Ltd	Long	AUD	THL	Tourism Holdings Ltd	Long	AUD
KGN	Kogan.com Ltd	Short	AUD	TIE	Tietto Minerals Ltd	Long	AUD
LYC	Lynas Rare Earths Ltd	Long	AUD	TLG	Talga Group Ltd	Long	AUD
MAY	Melbana Energy Ltd	Long	AUD	WBC	Westpac Banking Corp	Short	AUD
MEG CN	MEG Energy Corp	Long	AUD	WHC	Whitehaven Coal Ltd	Long	AUD
MMS	McMillan Shakespeare Ltd	Short	AUD				

A
diversified
and very
liquid
portfolio

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MEG Energy (MEG CN) – Long Position

Stock Profile MEG CN

Long Position

EPS Growth	20%
PE	4.0x
PEG	0.2
OCF yield	33.7%
FCF yield	26.7%
Net debt	\$1300m
Market Cap	\$6450m

Fundamental Analysis

- MEG Energy is an unhedged Canadian oil producer with approximately 100,000 barrels a day of production and a 50 year reserve
- The company's netback price is approximately \$45
- Like most global energy companies, MEG had a large debt balance of over \$5b at its peak – it now sits at \$1.3bn
- The company has approximately \$5bn in carry forward tax losses
- At current oil prices (\$75/barrel), the company generates nearly \$1.7b CAD of Free cash Flow
- The current capital return profile is 50% of free cash flow toward debt repayment and 50% toward share buybacks – when net debt reduces below \$0.6b, this shifts to 100% buyback and dividends will be discussed.

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MEG Energy (MEG CN)



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Capstone Copper (CS CN) – Long Position

Stock Profile CS CN

Long Position (FY 24f)

EPS Growth	137%
PE	7.0x
PEG	0.1
OCF yield	22.1%
FCF yield	12.0%
Net debt	\$330m
Market Cap	\$4.2bn

Fundamental Analysis

- Short term, the major driver of demand comes from Chinese infrastructure – which is currently over 50% of global demand for copper.
- Nearly 14% of global copper supply comes from Peru and Central America, suffering from major political instability
- Longer term, copper will be in a significant deficit from 2023, as the electrification demand grows exponentially
- Recent merger between Capstone Mining and Mantos Copper provides a 500m lb producer of global significance
- Capstone is set to increase production by 60% by 2024 and 100% by 2025
- Costs are projected to fall from \$2.40/lb to \$1.85/lb
- At spot, group could generate \$1.3b EBITDA

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Capstone Copper (CS CN)



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Current Investment Themes

Small cap recovery

- Small cap companies have lagged their larger peers over the past 12 months
 - ASX XSO down 7.2% vs ASX XAO up 5.8% to 31 Jan – a 13% divergence
- We are finding more opportunities in this area now as valuations have reduced and liquidity has started to improve
- There is significantly more variation in company performance across small caps which leads to higher risk but also more opportunity
- Tourism related recovery (THL, HLO)
- Specific turnaround situations (CCX, ANG)
- Shorts (SYA, SBM, RED, Banks)

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Outlook

- The Australian stock market has climbed a 'wall of worry' to near all-time highs
- International markets have lagged with the S&P500 and NASDAQ 13% and 24% below their highs respectively
- The resources sector continues to lead the ASX higher with China's re-opening the latest catalyst
- The AUD has bounced recently after trending lower in 2022
- Australian consumer has remained resilient to-date but some early signs of softness in 2023
- Expecting further weakness given lagged impact from interest rate increases and reducing savings buffers
- Higher interest rate and elevated cost environment will favour active stock-picking approach that combines fundamental and technical research

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