



Cadence Capital Limited (ASX Code: CDM) Year End Audiocast

In this year-end audiocast, Karl Siegling firstly provides an update on the Company's 2023 financial year performance, the 3.0c fully franked year-end dividend, the portfolio's composition and CDM's discount to NTA. Karl Siegling and Chris Garrard then discuss their investments in Meta Platforms, Whitehaven Coal and Westgold Resources. Karl Siegling then finishes with an update on the outlook for FY 2024.

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

Regards,

Wayne Davies
Cadence Capital Limited



Cadence Capital Limited

June 2023 Year-end Audiocast



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FY 2023

- Fund down 4.2% in FY23.
- Past 3 years fund up 9.9% p.a.
- The top contributors to performance during the financial year were Whitehaven Coal, New Hope, Patriot Battery Metals, Meta Platforms, BHP, Capstone Copper and Terracom.
- The largest detractors from performance were Australian Pacific Coal, City Chic Collective, Domino's Pizza, Nvidia and Genworth Financial.
- Core investments across the energy and resources sectors were again the major driver of returns for the fund over the past financial year, continuing the theme witnessed over the previous year.
- Conversely, the fund was conservatively positioned over the past year with high cash levels in the portfolio (on average above 50%) which dragged on its returns.
- Other detractors to the company's performance were investing in potential turnaround situations too early and making too many losses on new positions entered (both long and short positions)



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Final Dividend

| Calendar Year | Interim | Final | Special | Total | Gross (Inc. Franking) |
|---------------|--------------|--------------|--------------|---------------|-----------------------|
| 2007 | 2.0c | 2.0c | 2.0c | 6.0c | 8.6c |
| 2008 | 2.5c | 2.2c* | - | 4.7c | 5.8c |
| 2009 | - | 2.0c | - | 2.0c | 2.9c |
| 2010 | 2.0c | 2.0c | - | 4.0c | 5.7c |
| 2011 | 3.0c | 3.0c | 3.0c | 9.0c | 12.9c |
| 2012 | 4.0c | 4.0c | 4.5c | 12.5c | 17.8c |
| 2013 | 5.0c | 5.0c | 1.0c | 11.0c | 15.7c |
| 2014 | 5.0c | 5.0c | - | 10.0c | 14.3c |
| 2015 | 5.0c | 5.0c | 1.0c | 11.0c | 15.7c |
| 2016 | 5.0c | 4.0c | - | 9.0c | 12.9c |
| 2017 | 4.0c | 4.0c | - | 8.0c | 11.4c |
| 2018 | 4.0c | 4.0c | - | 8.0c | 11.4c |
| 2019 | 3.0c | 2.0c | - | 5.0c | 7.1c |
| 2020 | 2.0c | 2.0c | - | 4.0c | 5.7c |
| 2021 | 2.0c | 3.0c | - | 5.0c | 7.1c |
| 2022 | 4.0c | 1.0c | - | 5.0c | 11.4c |
| 2023 | 4.0c | 3.0c | - | 7.0c | 10.0c |
| TOTAL | 56.5c | 56.2c | 11.5c | 124.2c | 176.4c |

* Off market Equal access buy back

- 3.0 cps fully franked final dividend bringing 2023 total dividend up to 7.0 cps fully franked.
- The full-year dividend of 7.0 cps fully franked equates to 9.0% fully franked yield or a 12.8% gross yield (grossed up for franking credits) based on share price of \$0.78 per share on the date the dividend was announced.



Final Dividend

- After paying this final dividend, the Company still has 18.7 cents per share of profit reserves to pay future dividends.
- The Ex-Date for the dividend is 16th October 2023. The payment date for the dividend is 31st October 2023.
- The DRP will be in operation for this final dividend. The DRP will be priced at the weighted average share price over the relevant DRP pricing period.
- The Company intends to implement an on-market buy-back to repurchase the shares it issues under the DRP.
- This buy-back will operate when the CDM share price is trading at a discount to the Pre-Tax NTA.
- CDM is looking to support its DRP registered shareholders to reinvest their dividends at a discount to NTA, instead of leaving them to manage market orders for reinvesting their dividends.
- If you are not registered for the DRP and you would like to participate, please contact Boardroom on 1300737760.



CDM Portfolio

Market Capitalisation of Portfolio – 31 Aug 2023

| Market Capitalisation | Long | Short | Net |
|---------------------------------|-------|--------|-------|
| > AUD 1 Billion | 48.0% | -10.1% | 37.9% |
| AUD 500 Mill - AUD 1 Billion | 8.3% | | 8.3% |
| AUD 250 Mill - AUD 500 Mill | 0.0% | | 0.0% |
| AUD 100 Mill - AUD 250 Mill | 2.0% | | 2.0% |
| 0 - AUD 100 Mill | 1.0% | | 1.0% |
| | 59.3% | -10.1% | 49.2% |
| Net Cash Holdings and Tax Asset | | | 50.8% |

- CDM has a liquid and diversified portfolio
- Currently, more than 94% of the portfolio can be liquidated within one week, and around 97% of the portfolio within a month.
- The company currently holds around 40 positions with the largest position 6% of the fund.
- Approx. 83% of the funds gross exposure is in Companies with a > than \$1 Billion market capitalisation.
- Approx. half of CDM is in cash and cash equivalents.

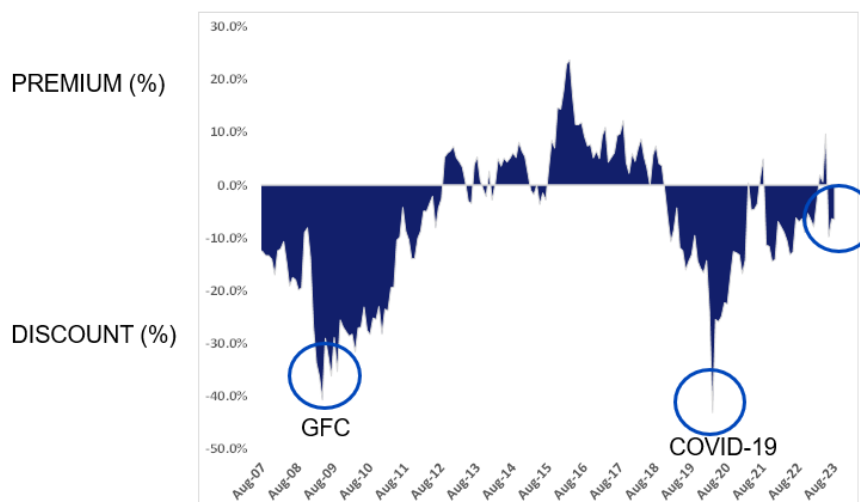
20 Top Holdings (Both Longs and Shorts) 30 June 2023 (Delayed)

| Code | Position* |
|---------|------------------------------|
| BHP | BHP Group Ltd |
| CS CN | Capstone Copper Corp |
| CGF | Challenger Ltd |
| GNW US | Genworth Financial US |
| IREN US | Iris Energy Ltd |
| JLG | Johns Lyng Group Ltd |
| MEG CN | Meg Energy Corporation |
| META US | Meta Platforms Inc |
| NFLX US | Netflix Inc |
| NCM | Newcrest Mining Ltd |
| NEM US | Newmont Corporation |
| PMT | Patriot Battery Metals Inc |
| QAN | Qantas Airways Ltd |
| QBE | QBE Insurance Group Ltd |
| SRX | Sierra Rutile Holdings Ltd |
| SIQ | Smartgroup Corp Ltd |
| SMR | Stanmore Resources Ltd |
| STX | Strike Energy Ltd |
| TIE | Tietto Minerals Ltd |
| THL | Tourism Holdings Rentals Ltd |

* In Alphabetical Order



CDM Share Price vs Pre-Tax NTA



- CDM is trading at a pre-tax NTA discount of around 6% whilst holding significant cash balances. If all the shares in the portfolio fell by 10%, the pre-tax NTA would still be above the share price. To put it another way, the shares in the portfolio can be bought at a 10% discount to their underlying value.



Meta Platforms (META US) – Long (Core)

Stock Profile META US

Long Position (FY23)

| | |
|------------|--------|
| EPS Growth | 26% |
| PE | 26x |
| PEG | 1.0 |
| OCF yield | 8.0% |
| FCF yield | 3.2% |
| Net cash | \$13b |
| Market Cap | \$776b |

Fundamental Analysis

- Meta's main apps are Facebook, Instagram, Threads and WhatsApp.
- Meta is also heavily involved in AI, with work progressing on their ChatGPT like large language model called Llama 2.
- Meta's second quarter results were released in July. Net income was USD 7.8b, up 16% compared to Q2 2022.
- Meta's cash flow is very strong with operating cash flow expected to be USD 60b 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 19 for 2023.
- Technically Meta shares have been in a strong uptrend for the past year as shown on the next slide.



Meta Platforms (META US)





Whitehaven Coal Ltd (WHC) - Long (Core)

Stock Profile WHC

Long Position (FY25e)

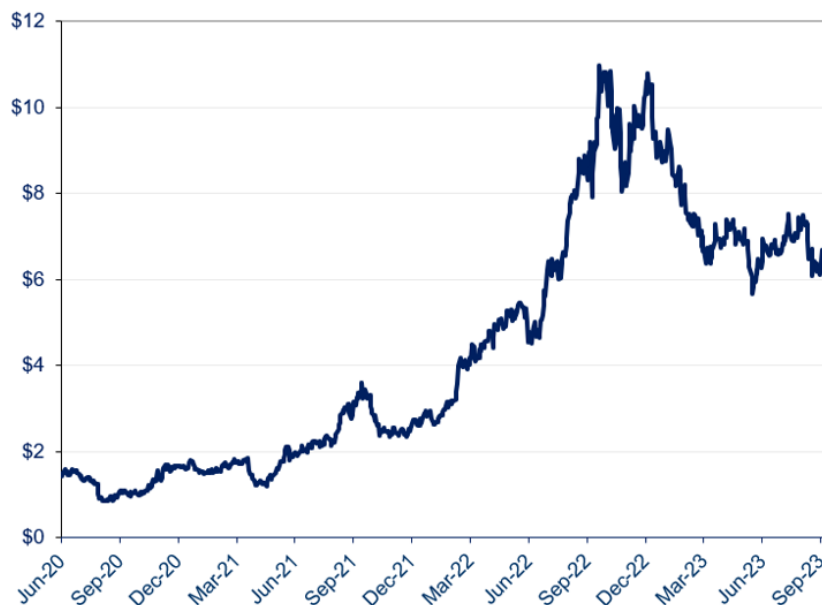
| | |
|------------|--------|
| EPS Growth | 5% |
| PE | 3.7x |
| PEG | 1.3 |
| OCF yield | 37% |
| FCF yield | 32% |
| Net cash | \$2.5b |
| Market Cap | \$5.9b |

Fundamental Analysis

- After selling out of our WHC position completely in FY23 when the coal price rolled over, we have entered a new position at lower levels.
- Looking at future earnings and excluding any potential acquisitions (the BHP Coal assets currently for sale), WHC is trading on around a 3.7x PE multiple and an even lower Enterprise valuation given high levels of cash and no debt.
- Operating and free cash flow yields are very high.
- Should energy prices remain high for the next 2 years and the world is still using coal, investors are potentially picking up the remaining coal assets and earnings thereafter for free.
- WHC is potentially the buyer of BHP coal assets. Provided WHC pay a valuation lower than current WHC valuations these acquisitions would be value accretive and highly EPS accretive.
- Both the Victorian and New South Wales government have announced they are in negotiations to keep base load coal fired power running for another decade.



Whitehaven Coal Limited (WHC)





Westgold Resources (WGX) - Long (Core)

Stock Profile WGX

Long Position (FY24)

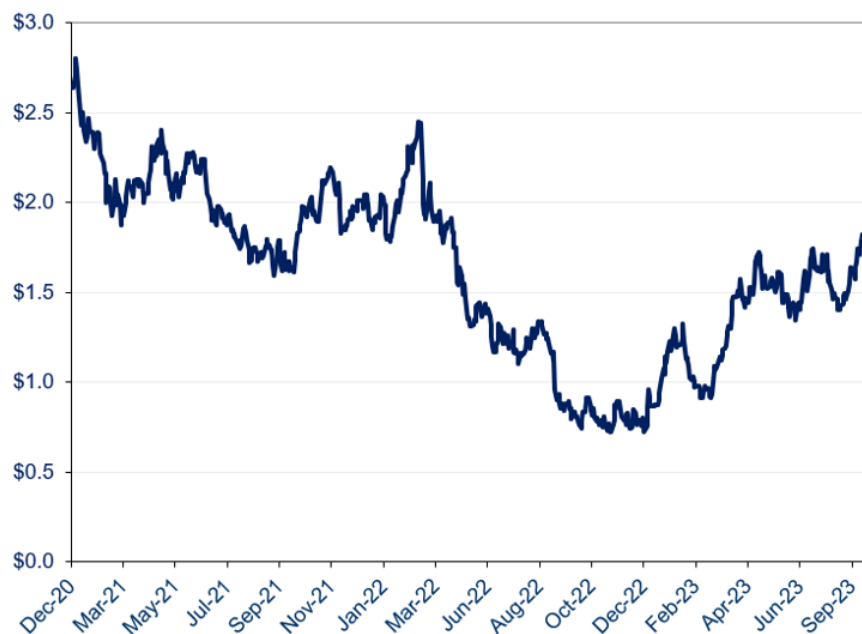
| | |
|------------|--------|
| EPS Growth | 910% |
| PE | 8.3x |
| PEG | 0.01 |
| OCF yield | 30% |
| FCF yield | 9% |
| Net cash | \$176m |
| Market Cap | \$837m |

Fundamental Analysis

- WGX management have successfully turned the gold operations around and 2024e looks set to deliver much improved earnings.
- WGX has also announced a capex program over the next 2 years to increase the volume of gold mined.
- WGX has been 'suffering' under a previous hedge book that has now rolled off and so gold mined from now on will receive the full margin between the gold price and the cost of mining gold.
- WGX has net cash on the balance sheet and no debt.
- The gold price has been inching up over time and especially in AUD\$ which should also improve earnings.
- A smaller gold position RED entered the portfolio through a 13 cents placement earlier this year and we were recently bid 26 cents for our shares and sold half.
- The gold sector has and continues to experience significant M&A activity. The largest gold merger in history (Newcrest and Newmont) is moving closer to completion as well.



Westgold Resources Ltd (WGX)





Other Investment Themes

- Prior to 2020 we had a decades long downtrend in interest rates. The downtrend has ended, and interest rates have now been rising for three years. This will be one of the most important trends to monitor in determining the direction of future asset prices.
- Commentators continue to talk about 'peak interest rates' or 'terminal interest rates' whilst interest rates reflect the cost of money. The cost of money goes up and down over time and has been as high as around 17% and as low as 2% over the last 50 years.
- In periods of rising interest rates and inflation sectors and stocks with pricing power tend to perform well. In periods of inflation energy and resource stocks can perform well.
- The relentless demand for more energy globally will need to be met by supply, otherwise energy prices will rise significantly and remain high.
- US interest rates are higher than Australian interest rates now (which is historically unusual) and should lead to a generally weaker Australian dollar against the US dollar. The Australian dollar has fallen significantly from parity against the US dollar to around 64 US cents. A weak AUD\$ leads to inflation in Australia as well.

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Outlook

- The post Covid recovery in markets ended in mid 2021. For the past two years markets have continued to be volatile, with no clear trend emerging.
- Asset prices have been very resilient in the face of the dramatic increase in interest rates since 2020. The interest rate trend tends to go in 40-year cycles so the asset price trends should be a longer cycle as well.
- Asset price compression remains a potential risk.
- We continue to focus on implementing the Cadence process that has served us well through market cycles
- Fewer stocks are meeting both fundamental and technical criteria, but they do exist, and we have started to see some of the cash in the portfolio deployed.
- We are starting to see trading opportunities in which shares are trading at a discount to underlying assets and, subject to detailed due diligence, these tend to be good risk adjusted long term investments.
- Nonetheless cash and liquidity levels remain high. Both factors reduce the level of risk in the portfolio whilst looking for new investment opportunities.

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