QVE
MANAGER
INSIGHTS

QV Equities: Top 10 Holdings

30 April 2019

The ex20 segment of the Australian sharemarket represents an opportunity to invest in a broad and diverse group of companies. As the appointed manager of QVE, Investors Mutual (IML) invests in good quality companies that, in IML's view, demonstrate the attributes of ***strong competitive advantage***, ***recurring earnings***, ***capable management*** and the potential to ***grow their earnings and dividends over time***.

IML then applies a disciplined valuation framework to ensure that these companies are purchased ***at a reasonable price***. This approach to investing has achieved returns that are more consistent and less volatile than the Australian sharemarket, for over 20 years.

Where we are finding opportunities in the current market

Having sold out of its interests in Macau and Las Vegas, ***Crown*** is now fully focused on operating its well-established casino entertainment complexes in Melbourne and Perth – both of which are underpinned by attractive long-term licences. The domestic gaming markets are relatively mature and generate a significant amount of cash flow. Crown was successful in being awarded a licence by the NSW Government for a second casino in Sydney in 2013 Crown is currently building Sydney's second casino resort at Barangaroo, which is scheduled to open in the first quarter of 2021. We believe this casino will successfully compete for market share with Star City's casino at Pyrmont, as Crown has a reputation for building world class entertainment destinations and has long demonstrated the skills of profitably operating casino facilities.

Amcor is a global leader in the supply of packaging materials for the food, beverage, consumer goods, healthcare and medical sectors across both flexible packaging and rigid plastics.

It has operations in North America, Europe, Latin America and Asia. In developed countries, the packaging business is mature and low growth but with efficient operations and significant free cash flow generated.

In the last decade, Amcor has successfully utilised this cash flow to make strategic bolt-on acquisitions as part of its growth strategy. Amcor is now in the process of taking over Bemis and has identified USD 180 million of synergies which can be extracted from merging both companies which should underpin its earnings growth for the next 2 to 3 years.

Steadfast operates the largest insurance broker network and underwriting agency in Australasia, distributing over $5 billion of premium through a network of 388 trusted insurance brokers. Steadfast provides scale benefits, bargaining power with insurers and a superior outcome for clients in terms of cover and price.

Over the years Steadfast has used its close relationship with its broker network to selectively acquire businesses that they believe they can add value to. This provides a pipeline of low risk, bolt-on acquisitions to drive earnings growth and we expect the company to continue making selective value accretive acquisitions in the years ahead.

QV Equities: Top 10 Holdings

Sonic Healthcare is the largest pathology provider in Australia as well as the largest in Germany, Switzerland & UK and number 3 in the US. As the population ages there will be an increasing demand for pathology tests. Advancements in new pathology tests are also leading to further volume growth for the industry. Sonic has an excellent management team that are also investing in technology to further automate the company's processes to ensure greater efficiencies over time.

Aurizon is a national rail freight operator, which owns and operates a monopoly below-rail infrastructure, and also competes in the above-rail haulage business. The Aurizon Network business owns the Central Queensland Coal Network, which is the railway infrastructure that connects coal mines in QLD to their respective ports. This business has recently struck a 10 year deal with the mining industry, which guarantees the terms on which Aurizon Network will provide access to the railway. Importantly, the deal allows Aurizon Network to earn an appropriate return on its very substantial infrastructure investment. This will now provide Aurizon with a secure source of profits and it also reduces regulatory risk going forward. Aurizon's above rail business also earns stable profits owing to its long term (10-12 year) contracts with customers. This combination of quality assets allows the Aurizon group – which is now extremely well managed - the opportunity to produce substantial free cashflow and pay attractive dividends.

Spark Infrastructure is an infrastructure investment company with significant holdings in high quality, long duration monopoly electricity assets. These assets include 49% stake in South Australia Power Networks, 49% in Victorian Power Networks and 15% in Transgrid (NSW). Spark's revenues and earnings are underpinned by regulated returns for fixed five-year terms. There is also an increasing opportunity to earn unregulated revenues through growth in building and connecting renewable generation assets, such as commercial wind and solar farms, to the grid.

Caltex is Australia's leading petrol and diesel supplier to the retail, aviation and mining industries. While at some stage electric vehicles will have an impact on the company, this is not expected to have any noticeable impact before 2035 at the very earliest. In the meantime, the company continues to generate good cashflow, has large property holdings and has $900 million in excess franking credits. With the stock trading on a PE multiple of less than 13 times, we believe this well-established company is currently trading at a very attractive valuation.

GWA is the leading designer and supplier of products and technology focused on the Bathrooms and Kitchens (B&K) segment. GWA's recent acquisition of Methven further strengthens its position in the $780m Australasian taps and showers category. Significant scale and innovation across B&K has allowed GWA to strengthen relationships with key customers. At the same time, this very well managed company is increasing its exposure to the fairly resilient renovation and repair market and building its market share in this segment through distributors such as Bunnings and Reece.

QV Equities: Top 10 Holdings

Clydesdale Bank is the largest of the UK challenger banks with full service capabilities in retail and SME banking. It was divested from NAB in 2016 with an independent management team, strong capital position, and solid deposit funding base. In 2018 Clydesdale acquired Virgin Money and announced cost saving initiatives of £120m pounds. Clydesdale has also received advanced accreditation from the UK regulator, and with £1bn of capital in excess of regulatory minimums there is £400m that could potentially be released to shareholders. We see Clydesdale as a conservatively managed retail and SME bank. While the UK banking market remains very competitive, we believe the company is attractive trading at 0.6x book value and a PE of 8x with significant potential to improve margins and return excess capital to shareholders over time.

Pact Group is a diversified group made up of: rigid plastics packaging in Australasia, contract manufacturing and materials handling (predominately crate pooling). Pact's performance has been severely impacted by higher input costs and electricity prices in Australia in the last 18 months. This has seen the company's PE fall to 10x. We believe the company is well positioned to recover and do well in the future given: 1) the high quality of its crate pooling business which is underpinned by long term contracts with Woolworths and Aldi; 2) input cost price recovery in their contract manufacturing business through price increases; and 3) a newly appointed and well credentialled CEO whose main objective is to extract $50m of cost savings over the next 3 years by optimising the company's manufacturing footprint in Pact's rigids plastics business.

Contact us

Wayne McGauley
Head of Retail
wayne.mcgauley@iml.com.au
P: +61 2 8224 0536
M: 0404 012 644

Justin Brooks
State Manager VIC, TAS & WA
justin.brooks@iml.com.au
P: +61 3 9900 6262
M: 0416 194 633

William Kim
Business Development Manager
NSW & ACT
william.kim@iml.com.au
P: +61 2 8224 0545
M: 0408 135 242

Luke Mackintosh
State Manager NSW, ACT & SA
luke.mackintosh@iml.com.au
P: +61 2 9232 7500
M: 0432 147 399

Jason Guthrie
State Manager QLD
jason.guthrie@iml.com.au
M: 0435 690 377

qvequites.com 1800 868 464 info@qvequites.com