

# QV Equities Investor Update

October 2019



**QV**  
Equities Ltd.

**IML** INVESTORS  
MUTUAL LTD

# QV Equities Limited

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- ❑ Listed 22 August 2014
- ❑ Managed by Investors Mutual
- ❑ Focused on Ex-20 stocks
- ❑ Experienced Board with independent majority
- ❑ Focus on long-term capital growth & income

## Investor needs:

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- Capital preservation
- Reasonable capital growth
- Income focused

## Investment Philosophy: focus on quality

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We seek to buy and own:

Companies with a **competitive advantage**,

with **recurring earnings**,

run by **capable management**,

that can **grow**,

.....at a **reasonable price**.

# Global economy

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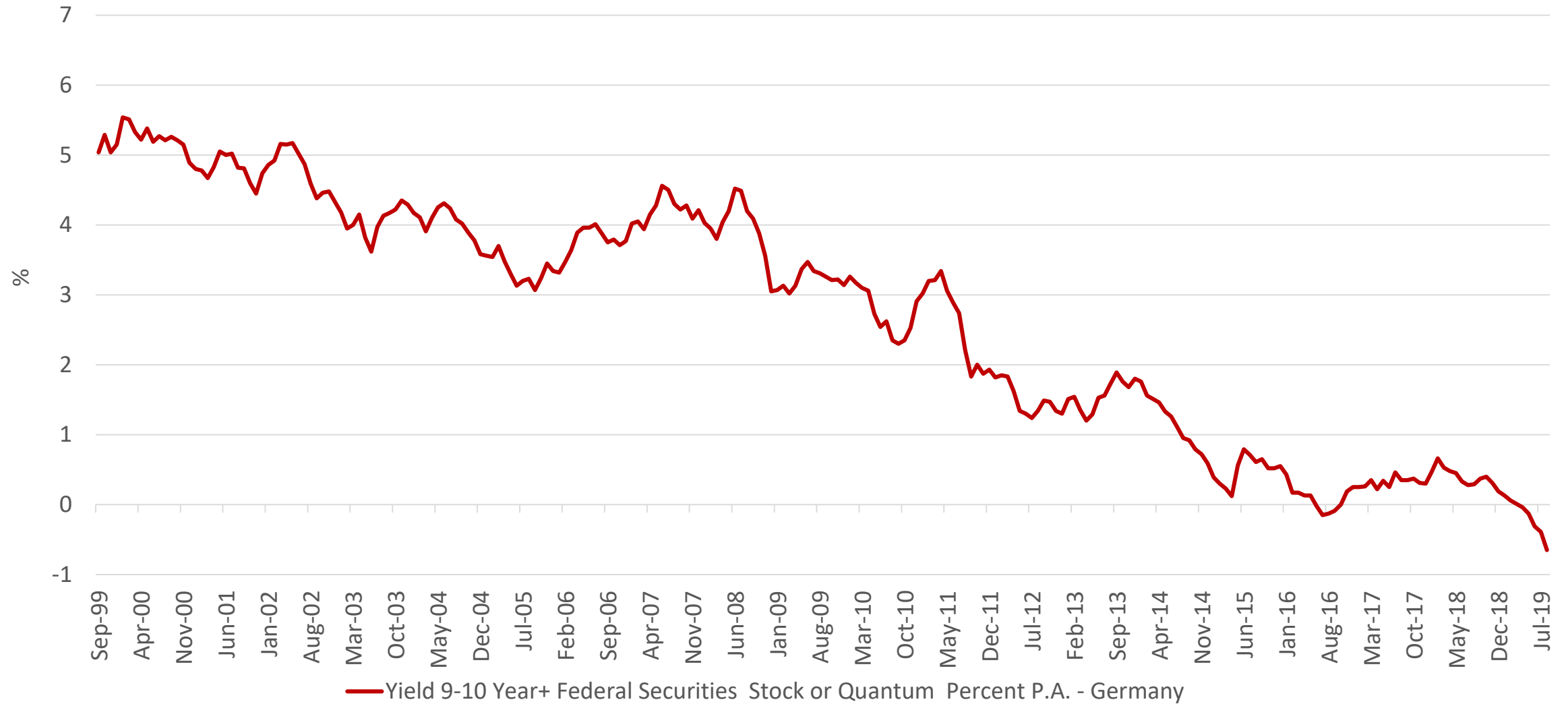
- ❑ US economic growth in mature phase
- ❑ China slowing as trade war impacts
- ❑ Eurozone economies meandering
- ❑ Emerging economies relatively stable
- ❑ .....global growth outlook slowing

# Australian economy

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- ❑ House prices plateauing
- ❑ Residential construction slowing
- ❑ Employment strong → low wage growth
- ❑ Consumer spending slowing
- ❑ Prolonged drought impacting several sectors
- ❑ Infrastructure spending continues
- ❑ .....fiscal stimulus and record low interest rates supporting the economy

# Bond yields – Germany

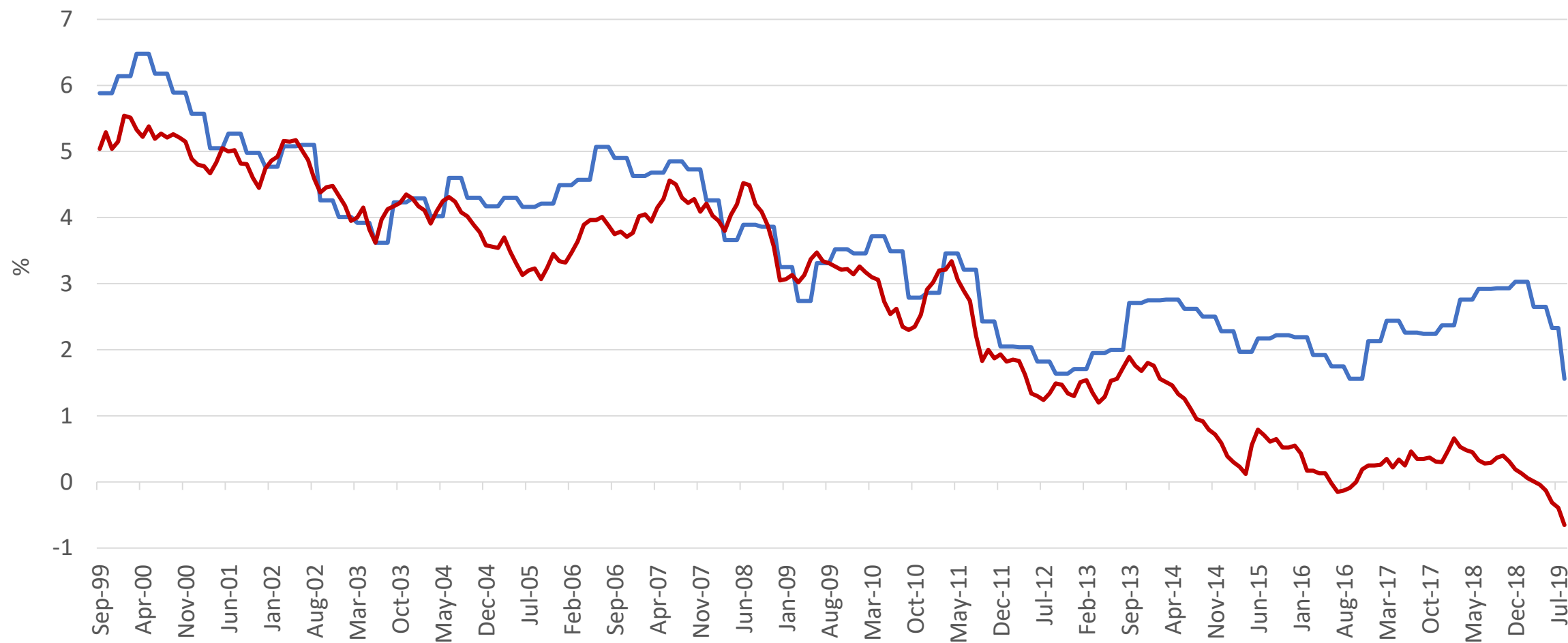


— Yield 9-10 Year+ Federal Securities Stock or Quantum Percent P.A. - Germany

Source: FactSet  
As at 8 September 2019



# Bond yields – Germany vs US



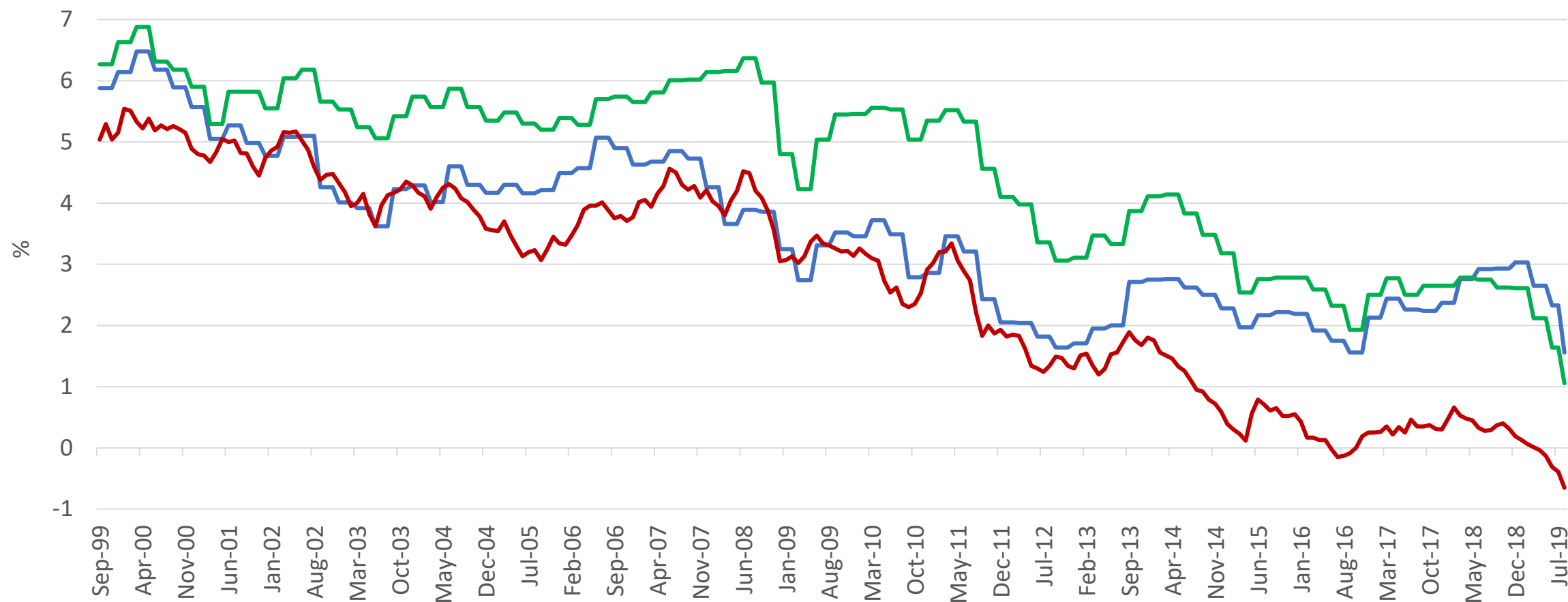
— Interest Rate 10 Year Government Bonds Percent - United States  
— Yield 9-10 Year+ Federal Securities Stock or Quantum Percent P.A. - Germany

Source: FactSet  
As at 8 September 2019





# Bond yields – Germany vs US vs Australia



- Interest Rate 10 Year Government Bonds Percent - United States
- Yield 9-10 Year+ Federal Securities Stock or Quantum Percent P.A. - Germany
- Interest Rate Commonwealth Treasury Bonds Yield 10 Years - Australia

# ASX300 & Dow Jones



## A challenging operating environment...

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- Rising competition
- Higher input prices
- Regulatory changes
- Slowing economy

# Sectors – major changes occurring.....

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- Retail
- Media
- Telecommunications
- Utilities
- Manufacturing
- Wagering
- Banking.....

## Other sectors.....

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- Healthcare
- REITs
- Resources
- Casinos/lotteries
- Infrastructure
- Consumer Staples
- I.T.

## IML positioning - focusing on company specifics

Company specific initiatives – growth through the cycle	
Cost-outs →	Tabcorp
Acquisitions →	Amcor, Sonic Healthcare, Steadfast
Contracted growth →	Shopping Centres Australasia
Market share gains →	Orica, GWA
Restructuring →	Crown Resorts

# QVE's best performing stocks for 2019

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Best performers
Aurizon
Ruralco
Steadfast
Genesis Energy
Orica

# Disappointing performers

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Clydesdale Bank

Pact Group

Mayne Pharma



# Performance & NTA – as at 30 September 2019

NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax	\$1.13
NTA after tax	\$1.11

\*The before and after tax NTA numbers relate to the provision for tax on net profit in addition to deferred tax on the un-realised gains in the Company's investment portfolio. The Company is a long term investor and does not intend disposing of its total portfolio. Under current Accounting standards, the Company is required to provide for tax on any gains that might arise on such a theoretical disposal, after utilisation of brought forward losses. All figures are unaudited and approximate.

PERFORMANCE*	QVE's NTA (pre tax)	QVE's NTA (after tax)	BENCHMARK
1 Month	+0.9%	+1.0%	+1.5%
3 Months	+0.1%	+0.5%	+4.6%
6 Months	+2.0%	+1.8%	+11.5%
1 Year	-0.1%	+0.5%	+11.0%
Since Inception Total Return p.a	+7.1%	+6.1%	+11.4%

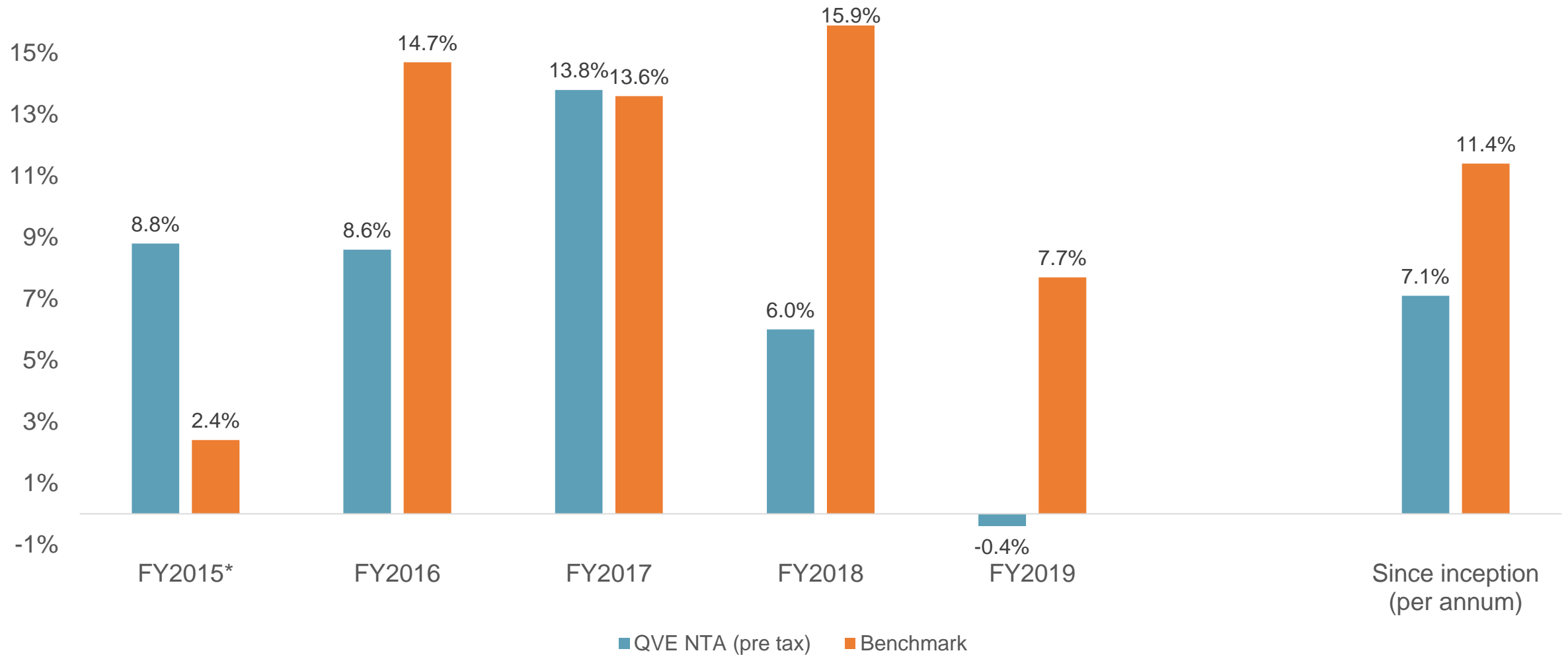
The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid for pre-tax NTA. Past performance is not indicative of future performance.

## IML's portfolio lagging over recent periods

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- ❑ "Momentum" based market
- ❑ Valuations stretched in some sectors
- ❑ Industrials sector lagging the Resources sector
- ❑ Significant gains in momentum/concept stocks
- ❑ A few disappointing performers in the portfolio

# QVE: Performance since inception by Financial Years

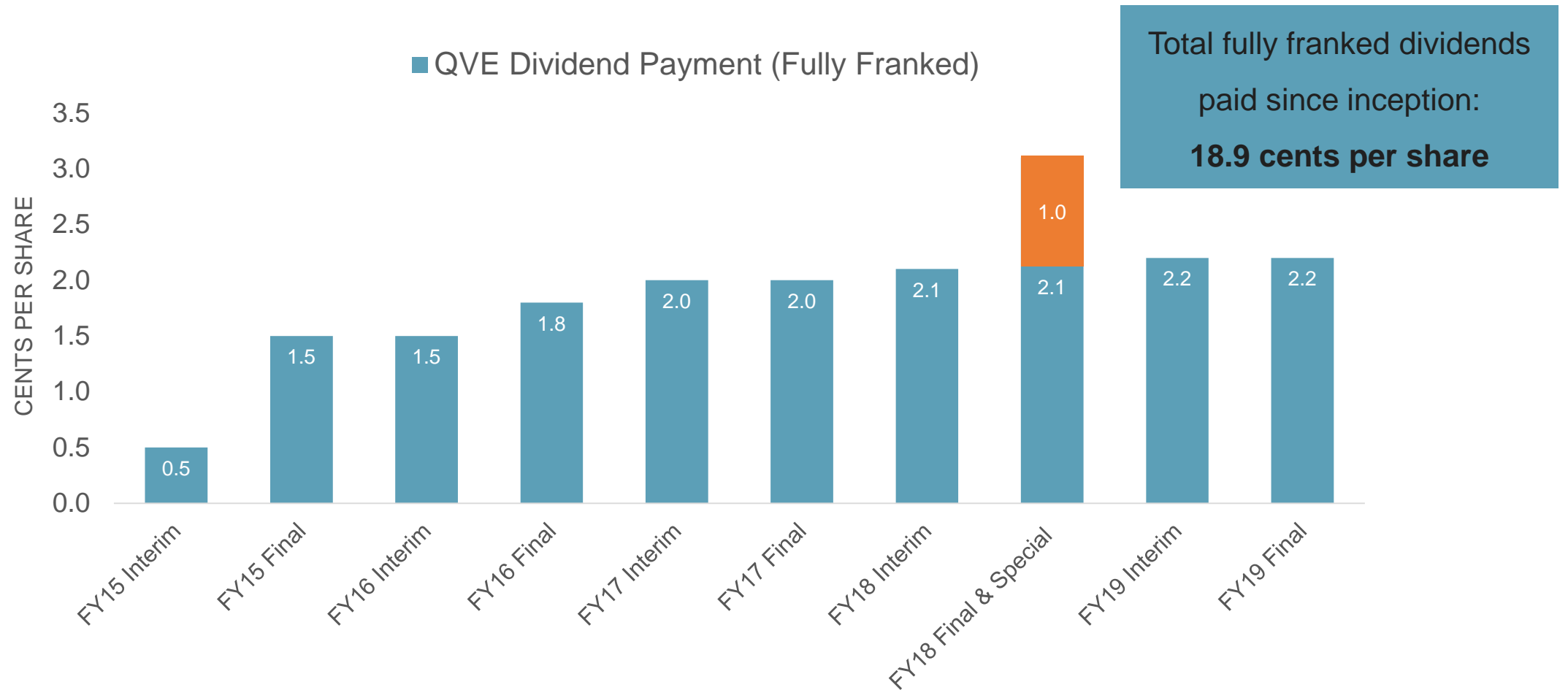


\*Returns are from inception date 22 August 2014

Source: QVE NTA announcements; 22 August 2014-30 Sept 2019

The above returns are after fees and assumes all declared dividends are reinvested and excludes tax paid from pre tax NTA. Past performance is not indicative of future performance.

# Historical Dividends to QVE Shareholders



## 'Growth' stocks on consensus numbers

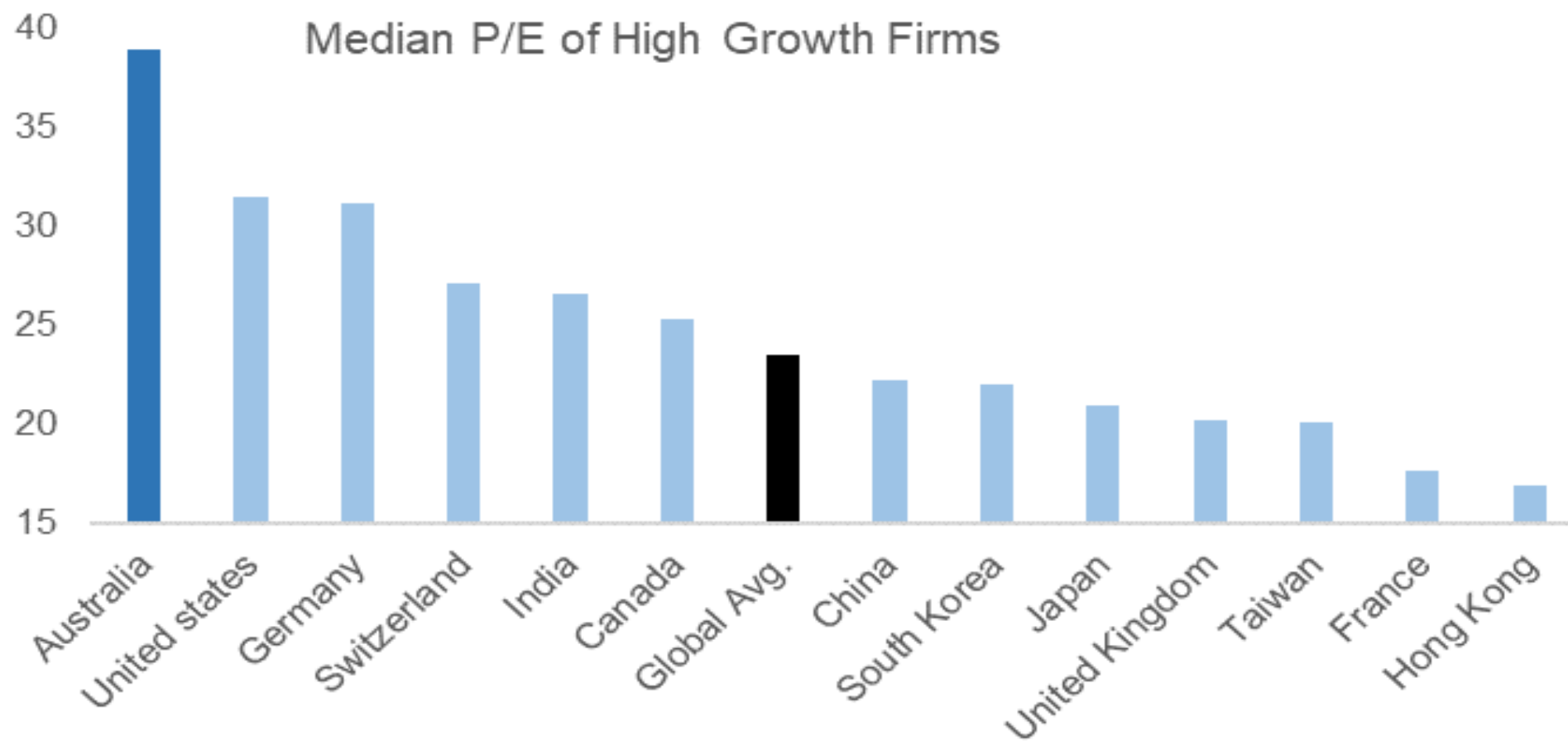
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	FY2020 PE	FY2021 PE
WTC	138.8x	100.2x
APT	390.5x	100.2x
XRO	467.6x	131.8x
PME	158.4x	118.5x
NAN	160.8x	90.9x

## 'Growth' stocks on consensus numbers

	FY2020 PE	FY2021 PE	Market Cap (\$bn)
WTC	138.8x	100.2x	12.1
APT	390.5x	100.2x	8.4
XRO	467.6x	131.8x	9.6
PME	158.4x	118.5x	3.5
NAN	160.8x	90.9x	2.1

# Australia's growth stocks are the most expensive in the world



Source: Goldman Sachs  
As at 26 July 2019

## REIT's sector

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□ Good quality, recurring earnings

□ Long WALE

□ Low debt/gearing levels

□ Price to NTA



# Mirvac

\$/NTA



Source: Evans & Partners  
As at 30 May 2019



## Stocks with realistic valuations

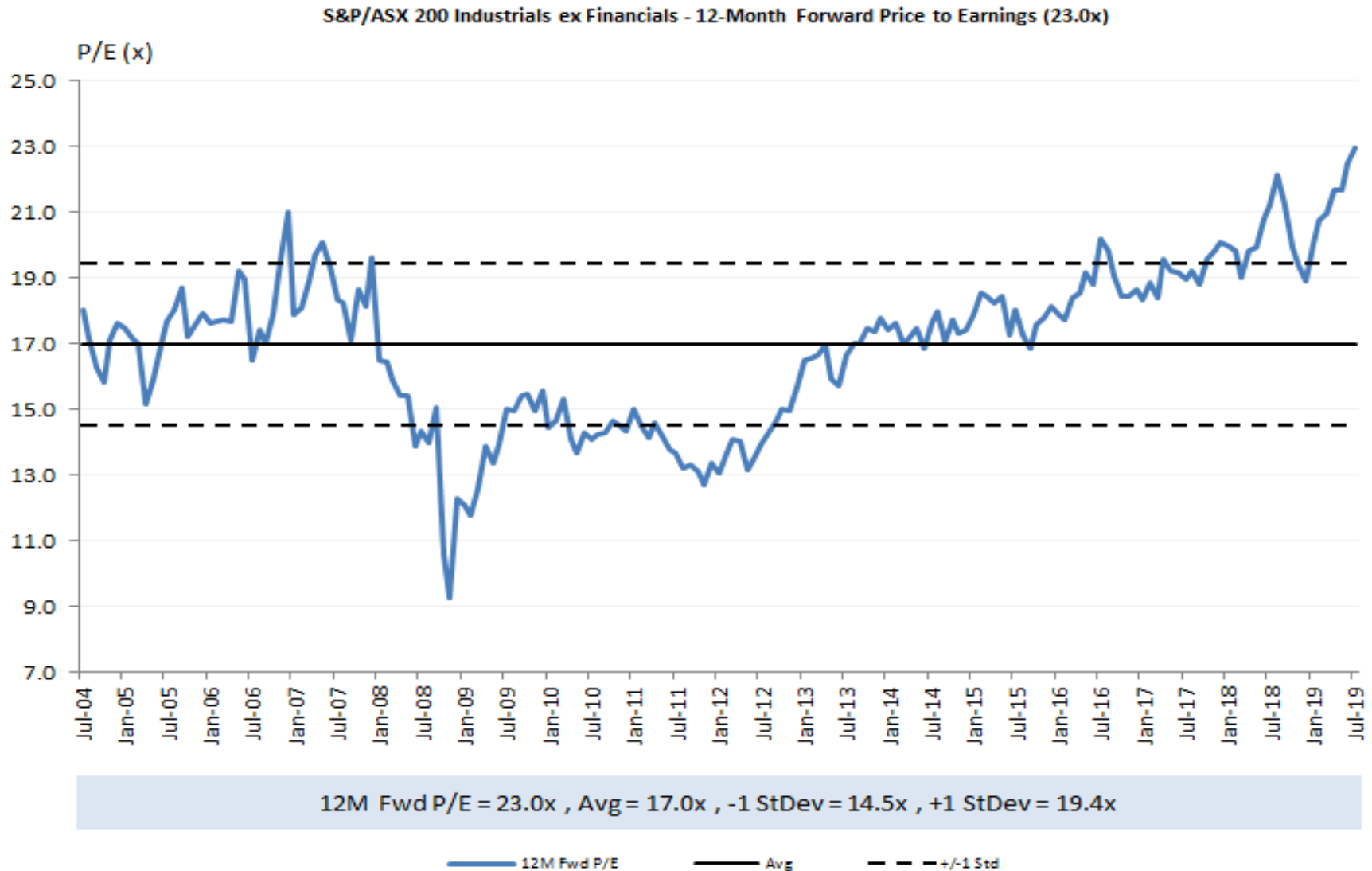
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	FY2020 PE	FY2021 PE
AMC	16.1x	14.9x
NEC	15.1x	14.2x
EVT	18.0x	16.9x
SKC	16.5x	15.8x
PGH	10.4x	9.6x
CTX	12.6x	11.7x

## Stocks with realistic valuations

	FY2020 PE	FY2021 PE	Market Cap (\$bn)
AMC	16.1x	14.9x	15.5
NEC	15.1x	14.2x	3.4
EVT	18.0x	16.9x	2.0
SKC	16.5x	15.8x	2.5
PGH	10.4x	9.6x	0.8
CTX	12.6x	11.7x	6.2

# Australia's Non-Bank Industrials at record levels



Source: Goldman Sachs  
As at 26 July 2019



## Buys for the last 12 months

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New stocks	Added to the portfolio
Nine Entertainment	Tabcorp
Origin Energy	Link Administration
Sydney Airport	

## Sells for the last 12 months

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Exit	Trimmed
IPH	Ansell
Abacus Property	Steadfast
Contact Energy	Hotel Property Investments
	AGL
	Spark Infrastructure
	Fletcher Building



- ❑ Established UK retail bank
- ❑ Demerged from NAB
- ❑ £60.4bn mortgages\*
- ❑ £62.8bn customer deposits\*



□ PPI provisions

□ Retail competition intensified

□ Brexit uncertainty



# Clydesdale Bank– Why are we still holding/adding to?

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- ❑ PPI scheme closed
- ❑ Trading at 0.4x book and 5x PE
- ❑ Virgin synergies still to come through

# Pact Group



- ❑ Largest manufacturer of rigid plastics in Australasia
- ❑ Majority of revenues from defensive consumer end-use products
- ❑ Growing in contract manufacturing and materials handling
- ❑ Generating good cash flow



# Pact Group – Factors impacting performance



- ❑ Higher electricity prices
- ❑ Higher input prices
- ❑ Increased competition
- ❑ Contract manufacturing issues



# Pact Group – Why are we still holding/adding to?



□ New focused CEO

□ Input prices stabilising

□ Materials handling division undervalued

□ PE of 10x earnings



- ❑ Global diversified pharmaceutical company with three key divisions
- ❑ Expertise in dermatology products & anti-fungals
- ❑ Large 150+ person branded drug sales force
- ❑ New manufacturing plant & \$50m annual R&D budget
- ❑ Experienced Management & Board



- ❑ Number of US generic wholesalers merged (5 down to 3)
  
- Generic price deflation 20%+
  
- ❑ Generics division profits fell down heavily (>30%)

# Mayne Pharma – why we have increased our holding



- ❑ Quality of earnings mix is improving
  - FY21 GP: Branded drugs 40%, Generics 40%, Contract services 20%
- ❑ Branded drugs is forecast to grow ~75% over the next 3 years due to Tolsura
- ❑ Contract services division continues grow @ double digit rates
- ❑ Generic pricing will stabilise, as the industry rationalises
- ❑ Forecast FY21 PE ~12x (adj. goodwill)

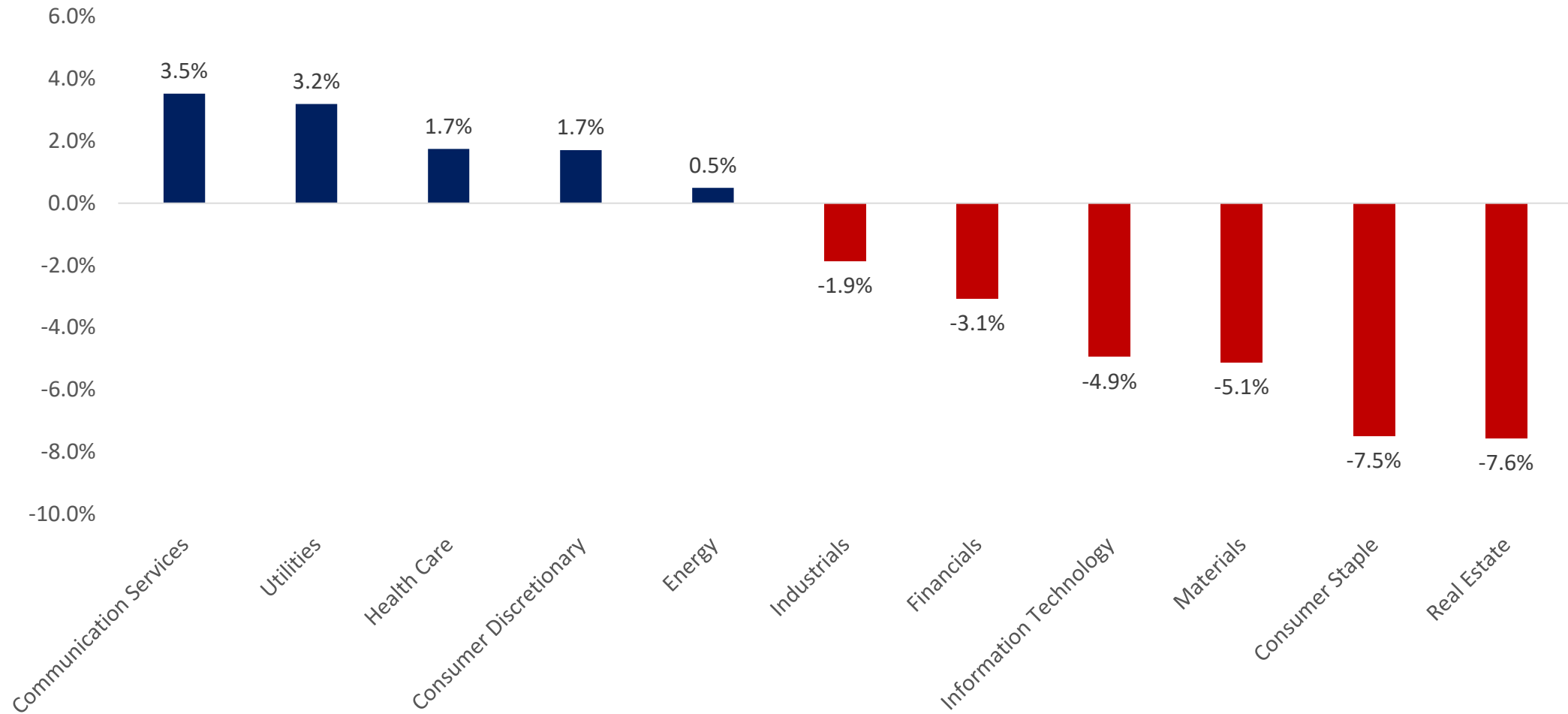
# Top 10 stocks

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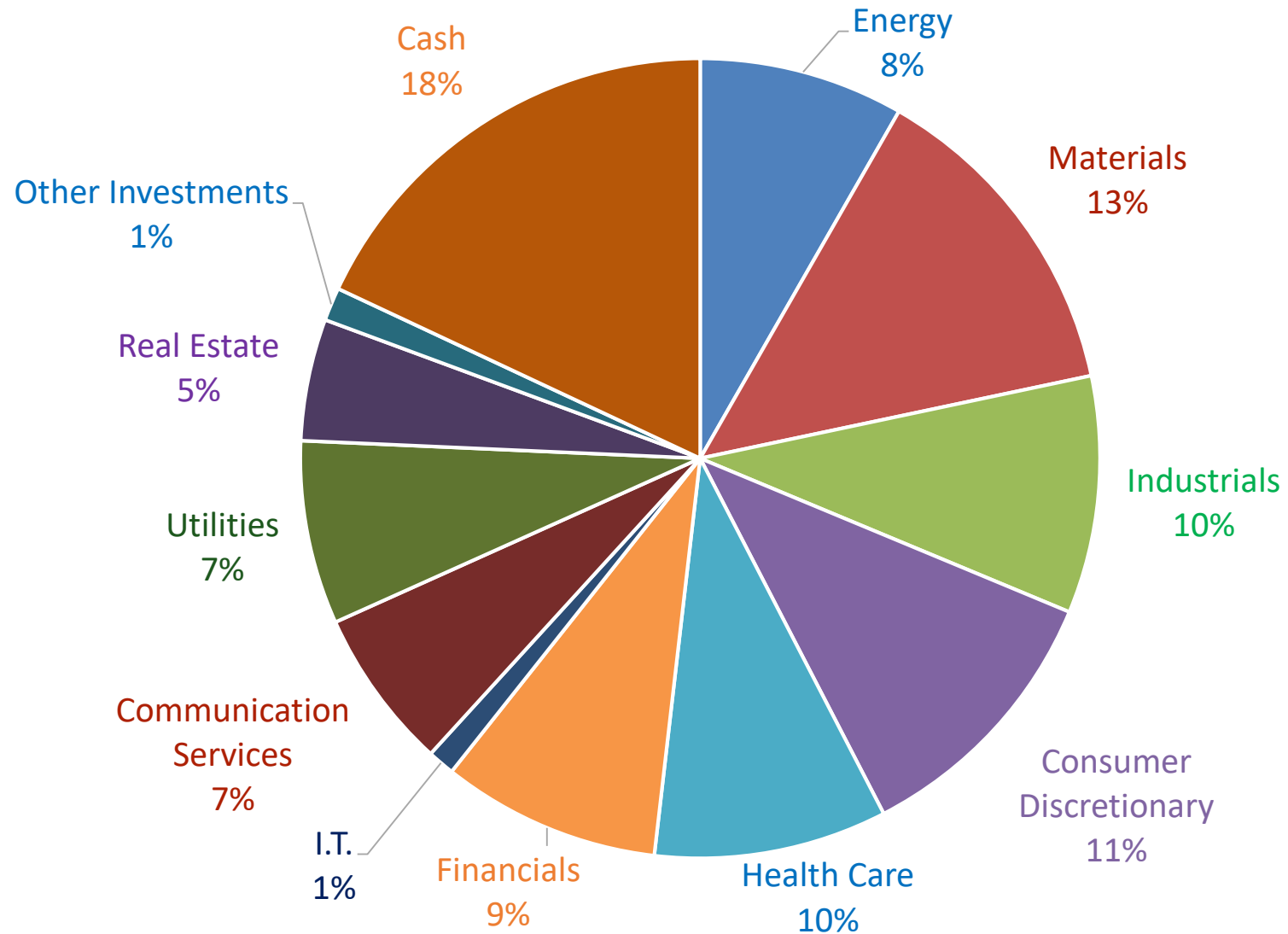
Top 10 holdings	
Amcor	4.6%
Aurizon	4.5%
Crown Resorts	4.4%
Sonic Healthcare	4.0%
Caltex	3.8%
Steadfast	3.5%
Tabcorp	3.4%
GWA	3.0%
Bank of Queensland	3.0%
Orica	2.9%



# QVE Sector positioning



# QVE Portfolio as at 30 September 2019



## Portfolio construction

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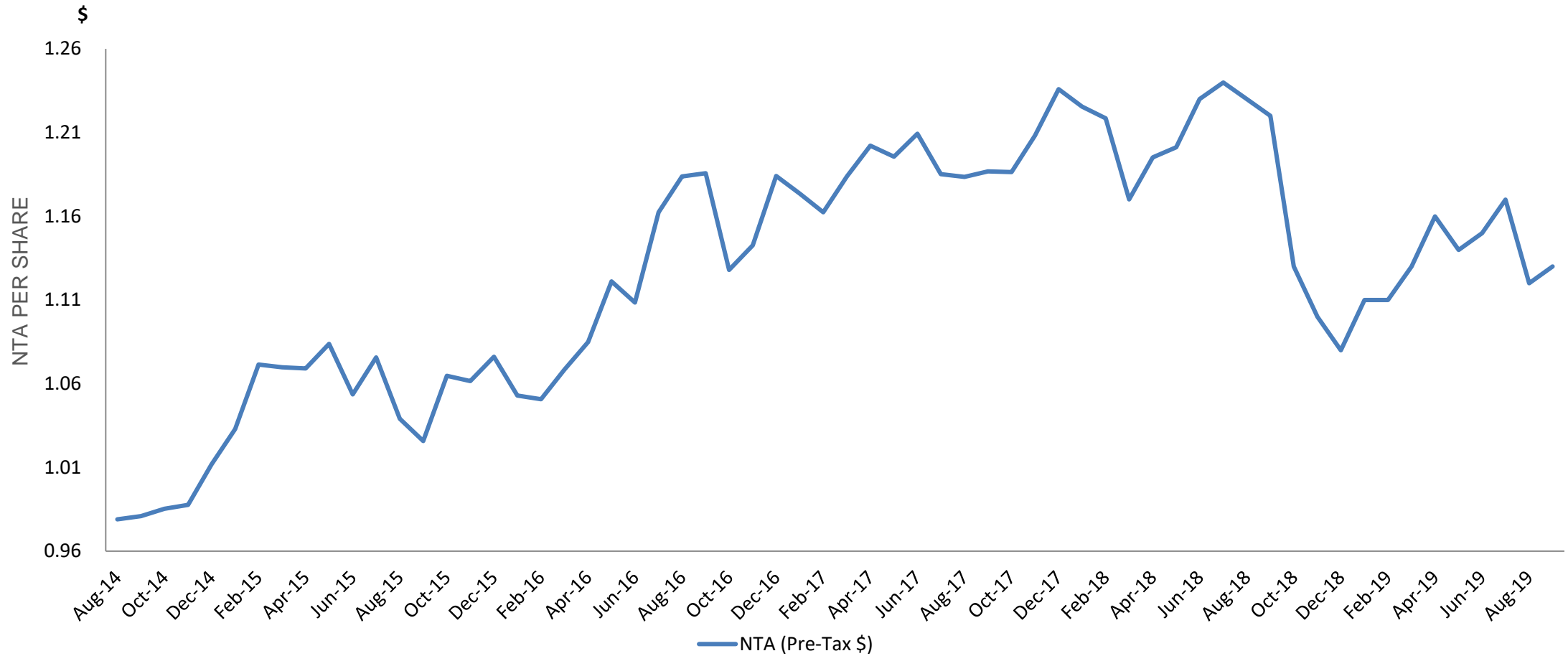
- ❑ Portfolios underpinned by quality industrial companies
- ❑ Discipline required on valuations
- ❑ Sustainable earnings from a diverse range of sectors
- ❑ Solid and consistent dividend levels
- ❑ Cash ready to take advantages of a pull back

## How to be best positioned for stockmarket corrections

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- Hold good quality stocks whose valuation makes sense
- Diversified portfolio
- Hold healthy portion of cash

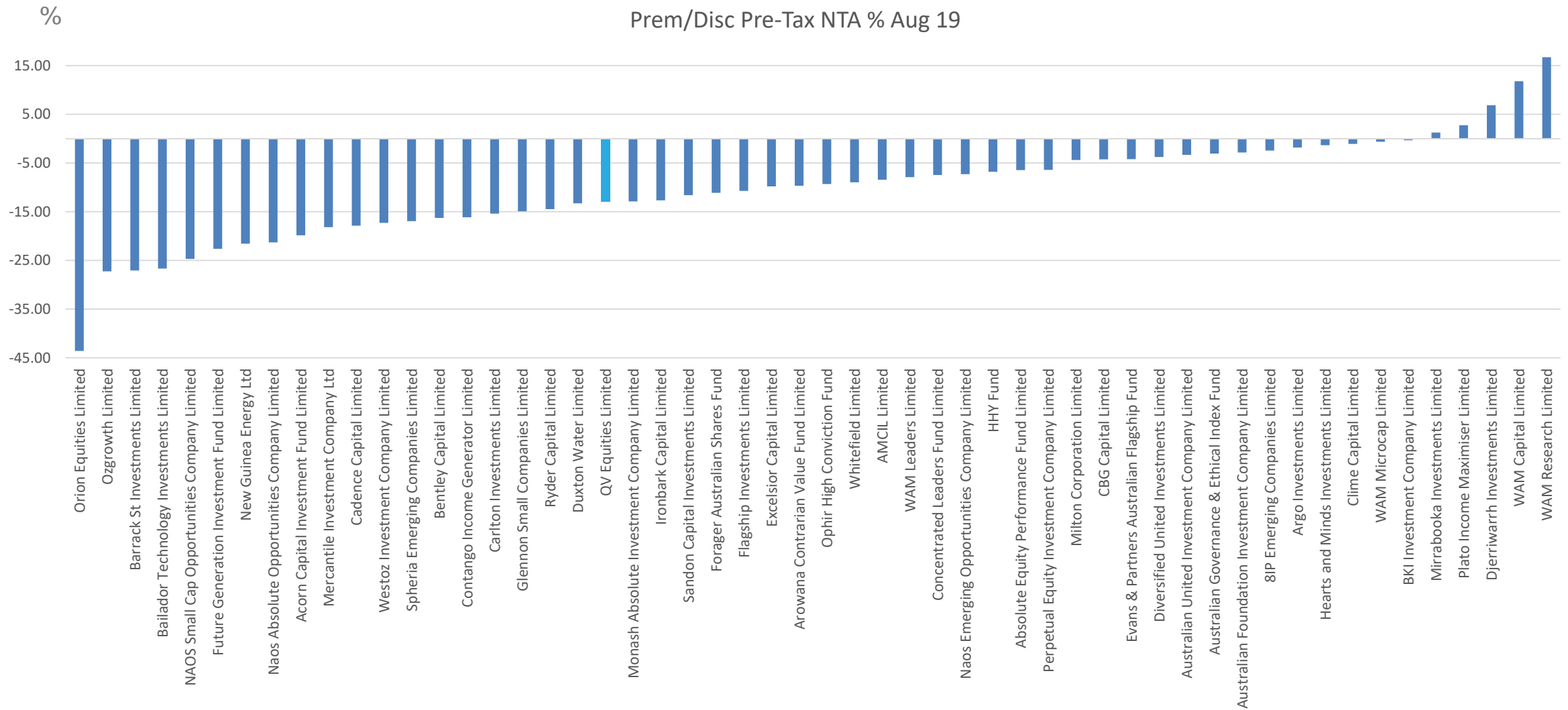
# Historical NTA



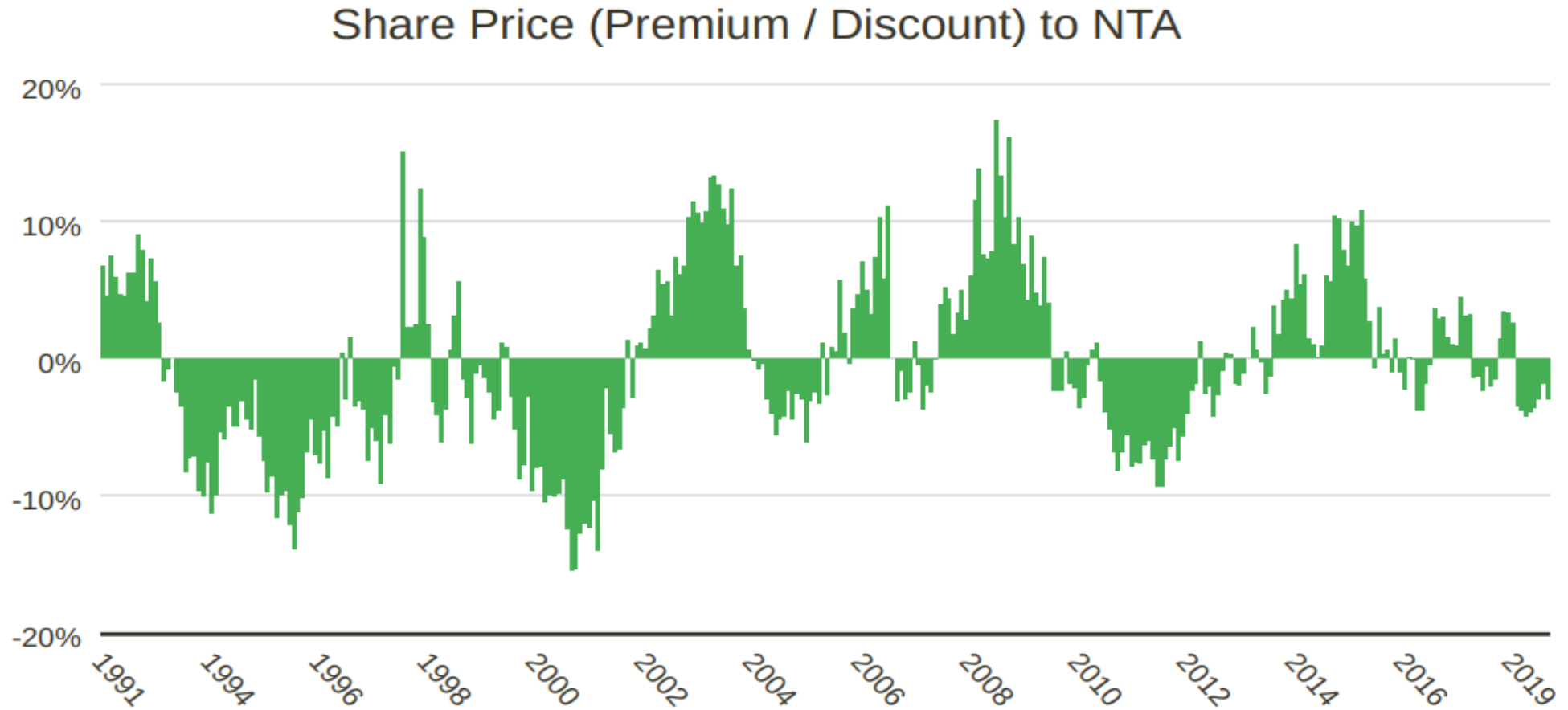
Past performance is not a reliable indicator of future performance

Source: QVE NTA as at 30 September 2019

# NTA: Premium v Discount as at August 2019



# LIC example: Argo Investments



Source: Argo Investments website ([www.argoinvestments.com.au/portfolio-performance/premium-discount-to-nta](http://www.argoinvestments.com.au/portfolio-performance/premium-discount-to-nta))  
As at 16 October 2019

# 20 lessons from 20 years of quality and value investing



[www.iml.com.au/20-lessons](http://www.iml.com.au/20-lessons)



## Why hold QVE?

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- ❑ More diverse investment opportunity set
- ❑ Investors typically underweight in the ex 20 segment
- ❑ Less researched opportunities
- ❑ Good yields on offer
- ❑ IML has a long record of significant value add in this segment...

## The role of a 'Value Manager' in a portfolio

Expectations of a 'Value Manager'	IML
Reasonable capital growth over time	✓
Resilience in falling markets	✓
Lower volatility	✓
Consistent income	✓
Tax effective*	✓

*\*Please seek your own independent tax advice for your particular circumstances.  
Please refer to the QVE website for more details on the investment manager, Investors Mutual Limited.  
Returns and capital are not guaranteed and the value of your investment can move up or down.*

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