

# QV Equities Investor Update webinar

July 2020



**QV**  
Equities Ltd.

**IML** INVESTORS  
MUTUAL LTD

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# 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

## 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**.

## Economic and Market backdrop

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- ❑ Sharp economic downturn and rising unemployment
- ❑ Unprecedented monetary and fiscal stimulus .....causing bubbles ?
- ❑ Volatility until the *"new normal"* is ascertained
- ❑ Rise in retail day-trading with unprecedented market rally

# Investment fads and booms will always come and go.....

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***When creative concepts capture investors' imagination and greed it can lead to some amazing bubbles in any market.....***

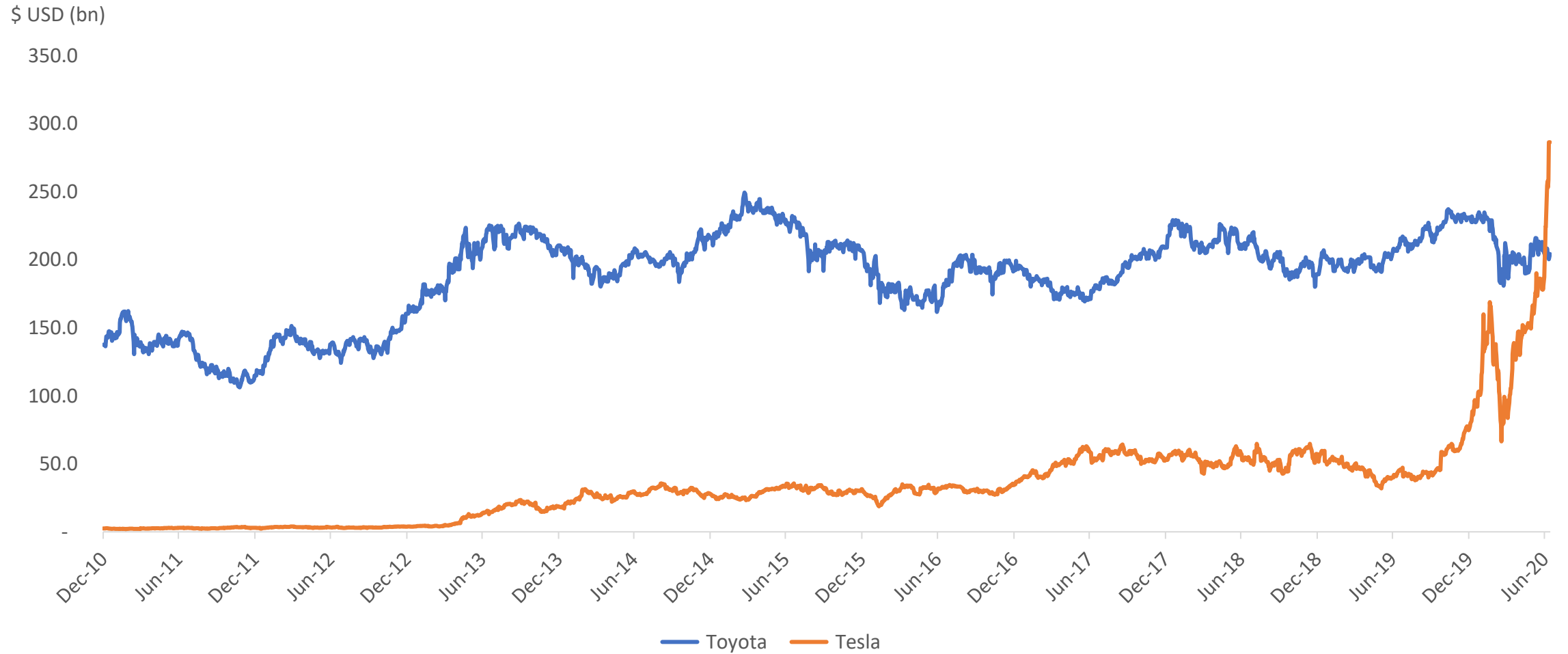
- Tulip mania ..... 1636
- South Sea bubble.....1720
- Japan property bubble.....1990
- Tech boom .....2000
- US housing bubble.....2006
- Covid 19 bubble.....2020 ( currently ongoing.....)

## QVE's portfolio lagging

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- ❑ "Momentum" based market
- ❑ Not a great time for value managers
- ❑ Significant gains in momentum/concept stocks
- ❑ The market always reverts to reality and fundamentals

# Market Cap: Tesla v Toyota





# Tesla: Share price



Source: Bloomberg; As at 13th July 2020

\*Bloomberg's forecasts

Note: Toyota MarYE bought forward to DecYE for better comparability

# Robinhood: Tesla holders

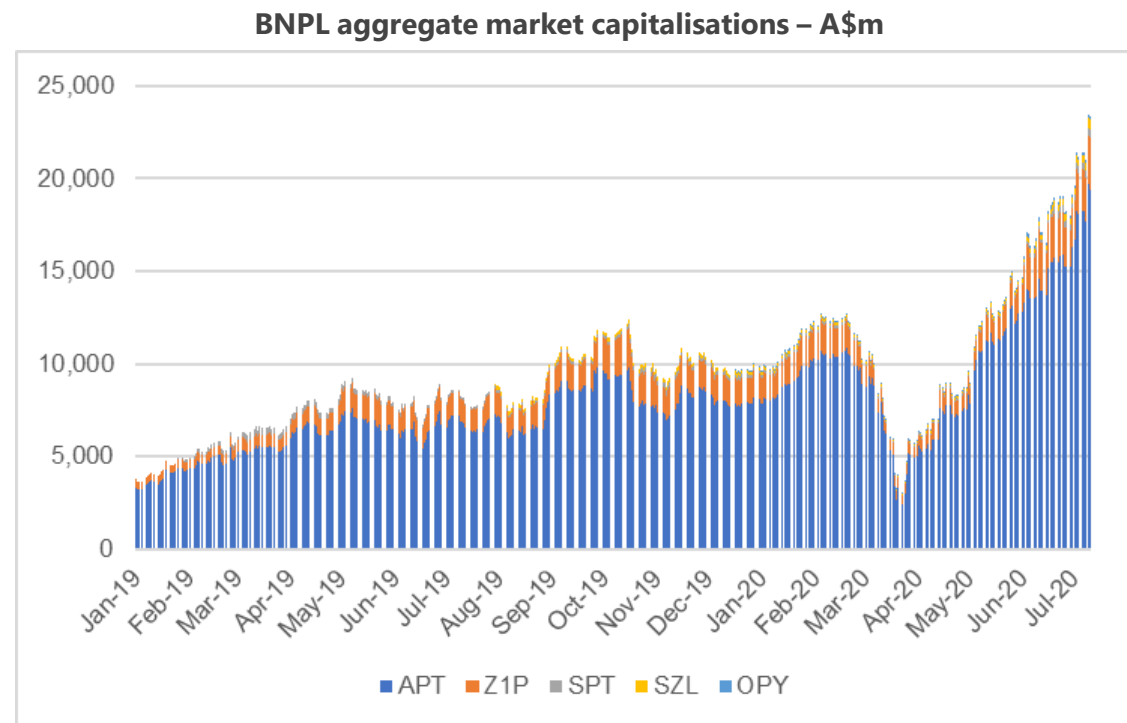


Price  
No. of shareholders

# Managing risk when fads often dominate the small caps market

- Small caps in particular prone to fads and bubbles
  - Dot.com boom of 2000/2001
  - LPT boom of 2005 – 2008
  - Resources/mining services boom 2005-2008
  - Technology/"Medtech" – ongoing
  - Buy Now Pay Later (BNPL) the latest instalment

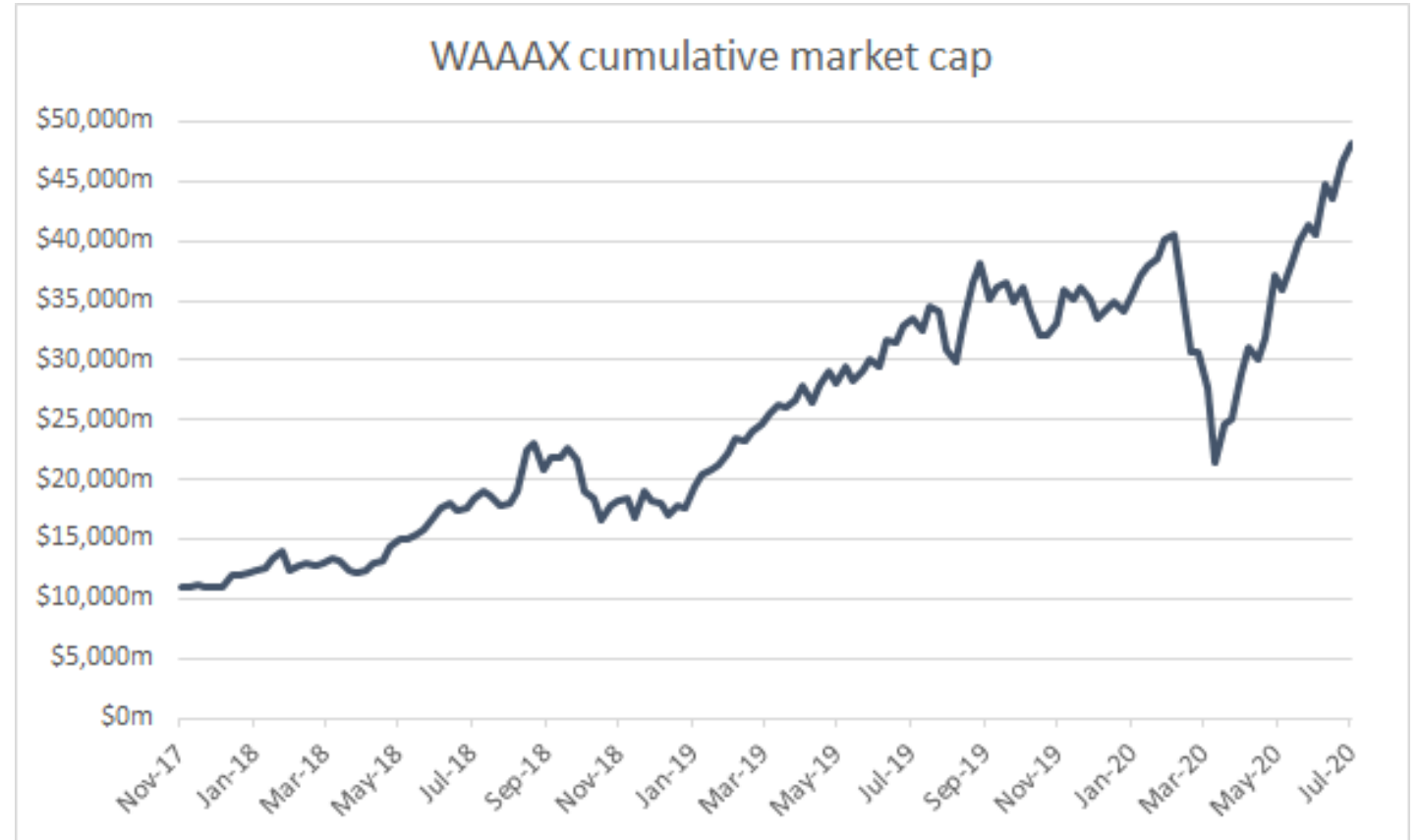
	Market Cap	FY20F PE
Afterpay	\$19.4bn	NA
Zip	\$2.8bn	NA
Splitit	\$0.4bn	NA
Sezzle	\$0.5bn	NA
Openpay	\$0.2bn	NA
Total	\$24.4bn	



Source: Factset, IRESS;  
As at 13th July 2020

# WAAAX Market cap – still at elevated level!

	Market Cap	FY21F PE
Wisetech	\$6.6bn	100x
Appen	\$4.4bn	45x
Afterpay	\$19.4bn	N/A
Altium	\$4.4bn	53x
Xero	\$13.2bn	201x
Total	\$48bn	399x



## It's a tough time to earn income on one's investments !

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- ❑ Interest rates at record lows
- ❑ Rent cuts or deferrals on many residential properties
- ❑ Many traditional sectors of the sharemarket cutting dividends
- ❑ Indebted companies conserving cash and raising capital
- ❑ Uncertainty remains and will persist for a while yet

# Assessing quality .....most important now

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Company by company assessment – which requires *ongoing contact*

- ❑ Industry leaders
- ❑ Recurring earnings
- ❑ Resilient revenues
- ❑ Experienced management
- ❑ Strong balance sheets
- ❑ Company specific growth drivers

➤ ***Opportunities for patient investors potentially on a 3 to 5 year view***

## QVE positioning - focusing on company specifics

Company specific initiatives – growth through the cycle	
Cost-outs →	Coles, Pro-Pac Packaging
Acquisitions →	Amcor, Sonic Healthcare
Contracted growth →	Shopping Centres Australasia, AusNet
Market share gains →	Integral Diagnostics
Restructuring →	Ampol, Orora

## Best performers in FY 2020

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- ❑ Sonic Healthcare
- ❑ Ampol (Caltex)
- ❑ Pro-Pac Packaging
- ❑ Integral Diagnostics
- ❑ Bunnings Warehouse



## Disappointing performers

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- ❑ Crown Resorts, Sky City and Tabcorp
- ❑ Southern Cross Media and oOh!Media
- ❑ Virgin Money
- ❑ Z Energy

## Recent purchases

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- Coles
- Bunnings Warehouse
- Orora
- Australian Pharmaceutical Industries
- Spark NZ

## Portfolio construction

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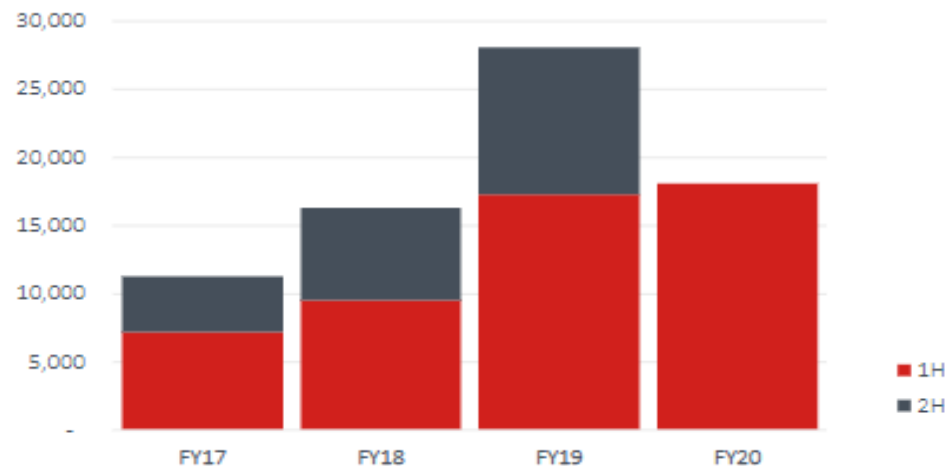
- ❑ Portfolios underpinned by good quality industrial companies
- ❑ Sustainable earnings from a diverse range of sectors
- ❑ Looking for solid and consistent dividends
- ❑ Cash ready to take advantages of a pull back

# Pro-Pac Packaging



- ❑ Three business units; Flexible Packaging, Rigid Packaging and Industrial Packaging
- ❑ Clear number two in the Australian flexibles market
- ❑ **Resilient** end markets; main exposures include agriculture, food and beverage
- ❑ Pro-Pac is delivering earnings growth, improving cash generation and reducing debt
- ❑ On an FY21 basis, PPG is yielding 4.0% and trades on a 13x PE

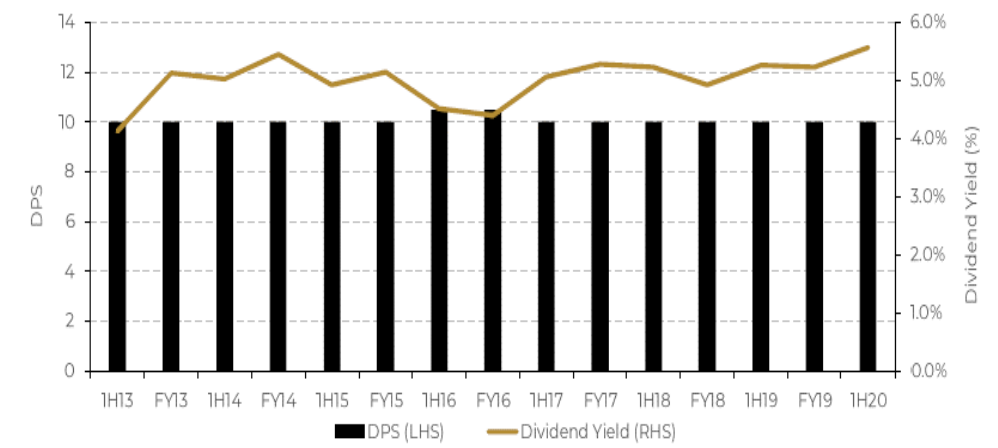
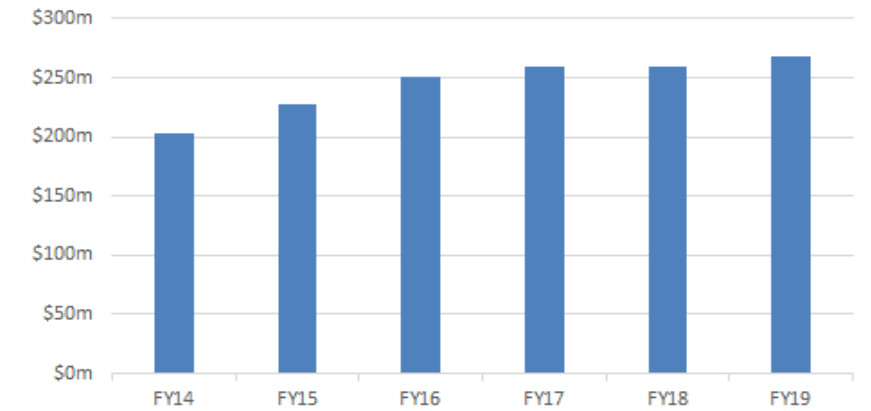
EBITDA\* Performance (\$'000)



Source: IML & Pro Pac  
1H 2020 Results presentation;  
As at 13 July 2020

- ❑ Casino operator in New Zealand & Adelaide:
  - Auckland licence to 2048
  - Adelaide licence to 2085
  
- ❑ Auckland - stable performance (85% of Group earnings)
  
- ❑ Strong cash flow - significant investment while paying a dividend
  
- ❑ Significant freehold interests in Auckland CBD property
  
- ❑ Recent capital raise further strengthens balance sheet

Auckland EBITDA (ex-IB)



Source: IML & SkyCity  
 1H2020 Results presentation;  
 As at 13 July 2020



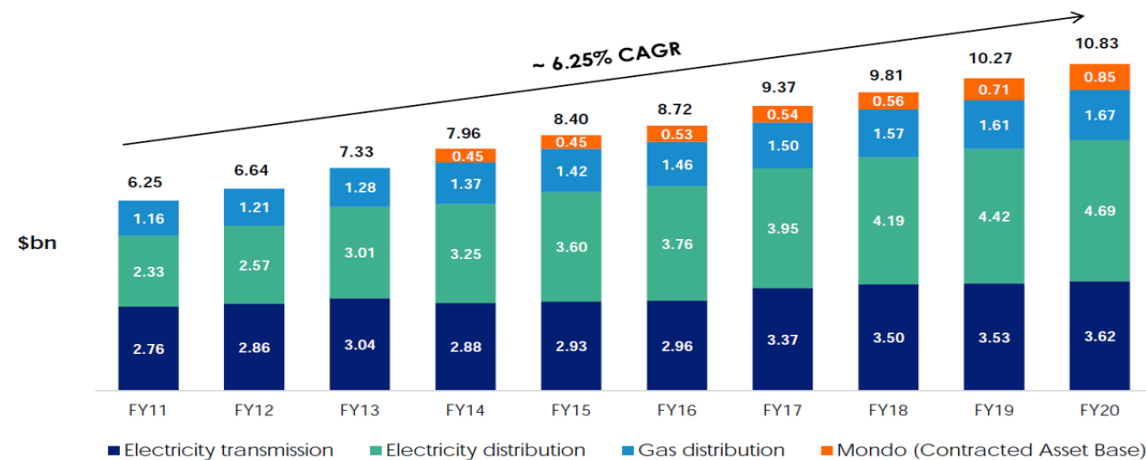
- ❑ 2<sup>nd</sup> largest Supermarket business in Australia with 809 stores
- ❑ Earnings split: Supermarkets 90%, Liquor 10%
- ❑ Strong balance sheet and cashflow (net debt <0.5x EBITDA)
- ❑ EBIT Margin @ 10yr low and 150bps lower Woolworths

## Management has a \$1bn cost out plan over the next 5 years

- ❑ \$950m capex spend on warehouse consolidation & automation
- ❑ Coles currently has 5 DCs in both NSW & QLD
- ❑ Coles has recently re-negotiated a number of long term service contracts
- ❑ Coles is updating a number of old IT/software systems

- ❑ AST owns electricity distribution, transmission and gas distribution in Victoria.
- ❑ Revenues and earnings are highly recurring and predictable
- ❑ Growing its asset base driven by population growth and more recently increased renewable penetration
- ❑ Forecasting FY21 DY of 5.6% with 50% franking and we expect this can grow at 2% - 3%p.a.

- FY11-FY20 asset base growth of ~6.25% p.a. CAGR



Source: IML & Ausnet  
 FY 2020 Results presentation;  
 As at 13 July 2020





- ❑ Owns key QLD rail infrastructure & oligopolistic above rail business
- ❑ Earnings are recurring and highly predictable (60% regulated)
- ❑ Operations have not been interrupted or impacted by Covid
- ❑ Div yield 5.8%, PE 17.4x FY20, forecasting yield 6.1%, PE 16.4x in FY21

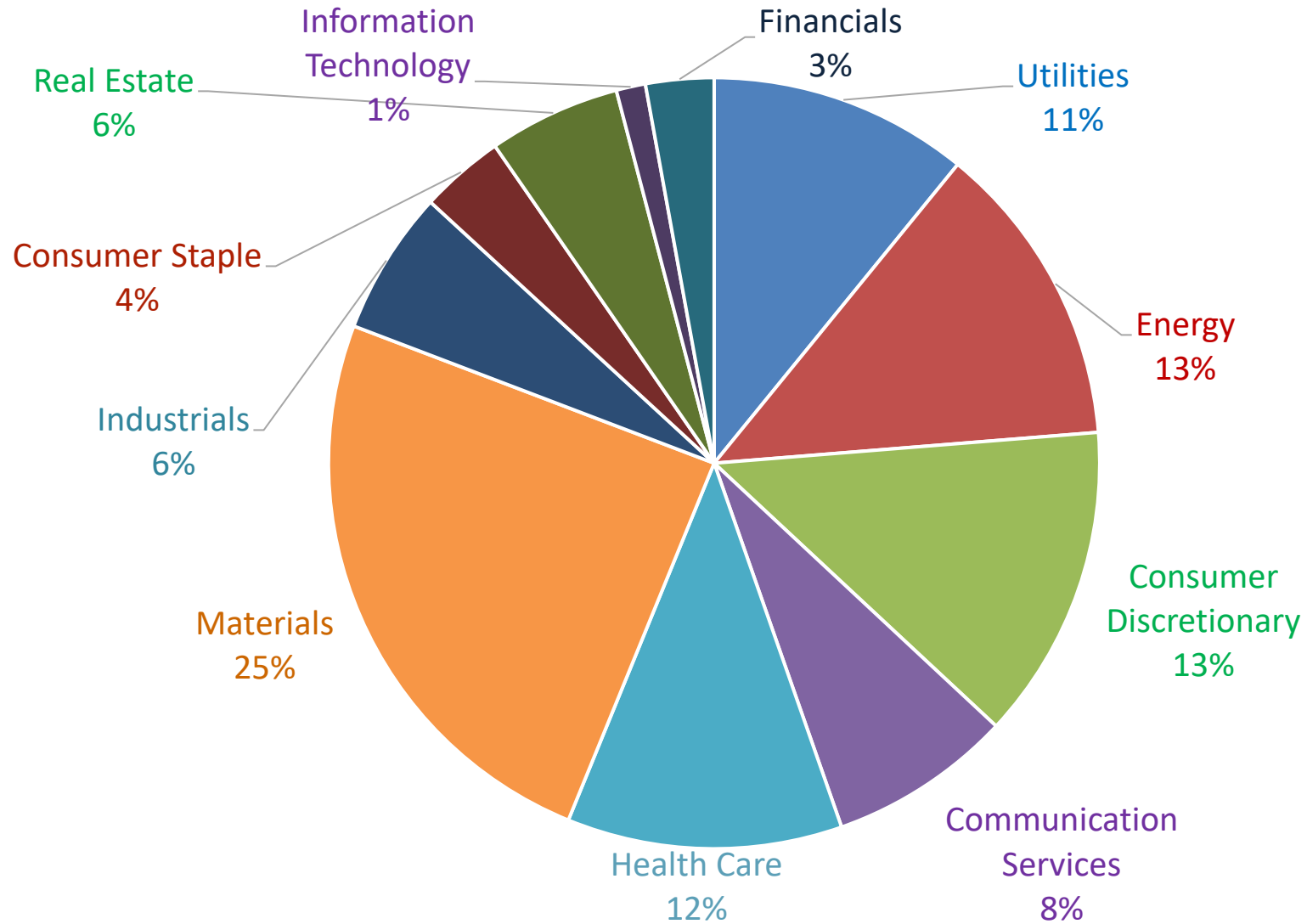


# Top 10 stocks

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Top 10 holdings	
Amcor	5.8%
Ampol (Caltex)	5.1%
Aurizon	4.9%
Sonic Healthcare	4.8%
Crown Resorts	4.7%
Coles	4.1%
AusNet	4.0%
Orica	4.0%
Tabcorp	3.7%
Pact	3.5%

# QVE Portfolio as at 30 June 2020



## Why hold QVE?

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- ❑ Good quality ex 20 portfolio
- ❑ More diversified set of companies
- ❑ Less researched opportunities
- ❑ Often some good yields on offer
- ❑ IML has a long record of significant value add in this segment

# Performance & NTA – as at 30 June 2020

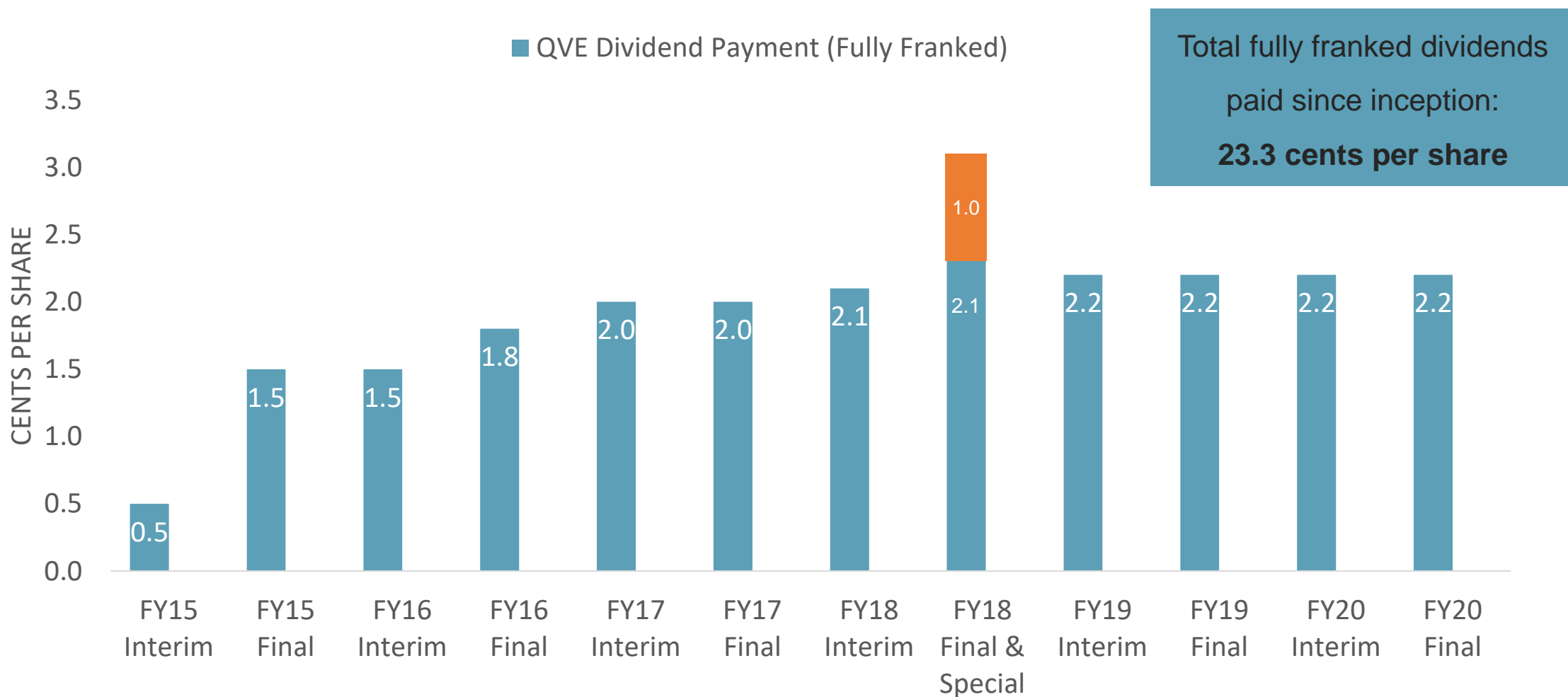
NET TANGIBLE ASSETS (NTA)*	QVE-ASX
NTA before tax	\$ 0.94
NTA after tax	\$ 0.98

\*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/losses 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/losses 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	-0.7%	-0.3%	+1.2%
3 Months	+16.8%	+10.9%	+23.0%
6 Months	-15.5%	-10.5%	-11.1%
1 Year	-14.5%	-9.3%	-5.3%
Since Inception Total Return p.a	+3.4%	+3.5%	+8.1%

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.

# Historical Dividends to QVE Shareholders



# Dividend Announcement & Capital Management

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- ❑ The Board has announced its intention to maintain dividend payments to shareholders for the half year and full year 2021 at the same level as were paid in FY 2020 (an interim dividend of 2.2 cents per share and a final dividend of 2.2 cents per share, both fully franked).\*
- ❑ Since the 10 % on market buy-back announcement on 22 August 2019, 12.9 million shares have been bought back with another 14.5 million shares still to go.

## QVE's strategy

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- ❑ Only holding well established, good quality stocks
- ❑ Cash being used to participate selectively in new stock issues
- ❑ Options writing on certain stocks
- ❑ Cash being used to buyback shares at the current discount to NTA
- ❑ Always on the look out for new opportunities



# Q & A

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