



Australian All Cap Portfolio

Individually Managed Account

Monthly Update

August 2019

TAMIM Asset Management
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Australian All Cap Portfolio Update

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August was a volatile month for global equities as the US/China Trade War rhetoric intensified. Equity markets sold off aggressively at the beginning of the month as investors took a conservative approach following a strong bounce in July. All indices were down during the month, most notably the ASX Small Ords Accumulation index was down -3.85% while the ASX200 was down -2.36%.

Despite this, **the TAMIM All Cap portfolios delivered a very strong performance during August of +4.55%. Calendar year to date the portfolios are up +28.21%.**

Although we report on a monthly basis, we invest on a multi-year time frame. In saying that, we are quite pleased with our performance in August for two reasons.

Firstly, we are coming off a month of very strong performance in July and, with our holdings already trading higher, it was always going to be difficult to replicate such performance in consecutive months. Secondly, the markets sold off aggressively at the beginning of August and our portfolios were not immune. The All Cap IMA portfolios were initially down almost -5% alongside the market. To finish the month up +4.55% is an **+9% swing and shows the benefits of active investing over passive investing.**

We would like to dwell on the second reason. As we always highlight, we are investing in companies. These are real businesses with highly entrepreneurial management teams behind them. **The share market is driven by noise on a daily and weekly basis.** Media headlines dominate investors mind about global economic growth concerns. This often distracts investors from the fundamentals of the companies they own. **It is only when fundamentals are pushed into the foreground,** at times like the reporting periods in February and August, that investors turn their attention back to basics and forget about emotions or distractions. It is this reason why our portfolio has outperformed the market in August as most of our holdings delivered strong growth in revenue and profits. This saw their **share prices revert closer to their fundamental based intrinsic value.**

August also saw housing prices rebound with prices in Sydney and Melbourne up +1.5%. We don't see this as the start of a housing market resurgence. Rather, we suspect this is just investors who sat on the sidelines from recent market uncertainty coming back in. **We are bullish on Australian equities in the medium term** as investors will seek better returns compared to what property and cash in the bank has to offer.

We provide some portfolio highlights from reporting season in the Portfolio Update section of the report and also **spotlight a new holding in Viva Leisure (VVA).** During September we will be meeting many more companies who are road showing their FY19 results and we will provide further updates in our coming monthly reports.

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Portfolio Updates

EML Payments (EML.ASX)

EML was one of the standout results of reporting season. The company exceeded guidance at both the revenue and profit line. Key take aways included:

- Revenue was up 37% to \$97m and underlying EBTDA was up 43% to \$30.2m (excluding one off costs).
- Operating cash flow conversion of 75% met expectations.
- Balance sheet finished the period at approximately \$20m net cash.

More importantly the 2H19 annualized run rate provides a starting base of \$33m EBTDA for FY20. Based on minimal organic growth, benefit of acquisitions and contract wins we expect \$45m of EBTDA this year on revenues of around \$130m.

EML is at an inflection point. Business momentum is accelerating and Gross Debit Volume (GDV) monthly numbers for June/July 2019 provide a strong start to the new financial year. As an example, in FY18 GDV processed was \$7bn, in FY19 it was \$9.3bn and we estimate FY20 GDV of \$14.5bn. **All divisions are growing strongly.** With market consensus sitting at \$40.5m EBTDA this year **we feel that EML is due an upgrade.** The AGM and EMLcon investor days in November should provide a further share price catalyst, with guidance and a potential announcement of a dividend policy. **EML is our largest holding and we value it at about \$5.50.**

People Infrastructure (PPE.ASX)

PPE reported a quality result and is experiencing strong industry tailwinds. Worth noting was:

- Revenue was up 27% to \$278m and NPATA was up 55% to \$12m;
- Cash flow conversion was strong and dividends for full year were well up to 9 cents ff;
- EBITDA margin at 6.4% is tracking upwards to company target of 8% over the long term. These are world best margins for a staffing business.

Health and Community services is now 50% of revenues and management is targeting 70% over the next few years. This provides the company with higher margins, better pricing power as the current market leader, and a **defensive earnings stream.** FY20 guidance is for 25 cents cash EPS and we see further acquisitions coming in 2H20. The balance sheet has capacity for \$20M+ of deals before needing to come back to investors for more equity. **We value PPE at ~\$4.50.**

Collection House (CLH.ASX)

Collection House was sold off heading into reporting season as the company received some negative publicity in August due to the escalation in bankruptcy proceedings against some of their customers. In addition, their listed peer, Pioneer Credit (PNC),



is currently suspended for accounting audit issues. Combine that with their largest shareholder selling out and a stretched balance sheet, and there is **not a lot to get excited about here**.

CLH's results basically met company guidance but the **quality of the result wasn't great** with many one offs and accounting adjustments to get there. Cash collections did not improve in 2H19 as expected although FY20 forecast is for substantial improvement. The company will need that improvement as capacity to borrow further is quite limited. We question management's rationale for increasing dividends and some of their investments this year. Heading into the reporting season **we had sold down our holding on these concerns** and completely exited the stock in the wake of their results. **Past mistakes have taught us to be more risk averse in these situations.**

Isentia (ISD.ASX)

Isentia is the leading media intelligence company in Australia and Asia Pacific. We previously highlighted the turnaround story within ISD under a new management team. FY19 results were in line with guidance at revenue of \$123m and EBITDA of \$23m. Cash EPS came in at 4.7 cents and operating cash flows were quite strong, benefitting from some favourable balance date movements. Overall, the **balance sheet now has the lowest amount of debt since 2015** at \$28m net debt. The business is finally benefiting from lower negotiated copyright costs and a focused and incremental investment into the product suite.

Management has done a good job of taking out costs by automating several aspects of media reporting. Guidance for FY20 is for \$20-\$23m EBITDA and we estimate net debt to reduce further to approximately 1x earnings. This is a level that we believe will enable **the board to consider reinstating dividends**. Management believes from FY20 onwards both

revenue and earnings will return to growth (10-20% growth) and we see FY21 Cash EPS of 5.5 cents as a realistic outcome. **Right now, we value the company at ~65 cents and we believe it is highly likely that ISD will get taken over in the next 2-3 years for over \$1 a share.**

Nine Entertainment (NEC.ASX)

Nine has done an excellent job of diversifying their revenue base away from the traditional broadcast TV business with only 47% of group revenue coming from TV. The business is now less susceptible to the structural headwinds and cyclical nature of TV advertising spend. **The company has new and emerging growth businesses to help boost long-term growth.**

Nine's subscription streaming service, Stan, turned profitable in 2H19 and should add to profits in FY20. Stan has over 1.7m subscribers and should generate \$200m+ of revenue this year. **We believe Stan alone is worth a good portion of the current NEC valuation.** Online property classifieds business, Domain (DHG), is recovering from one of the worst real estate listing environments in twenty years, and the acquisition of the remainder of Macquarie Media (MRN) should also be incremental next year.

Management can now focus on extracting revenue and cost upside on top of cross-selling opportunities from Nine's full suite of media assets they have acquired in the last two years. Guidance for FY20 is for 10%+ growth on FY19 EBITDA of \$424M. We estimate EBITDA to exceed \$500M and EPS of 14 cents. We see the 5% dividend yield as quite attractive. **We value NEC at ~\$2.50.**

Stock Spotlight - Viva Leisure (VVA.ASX)

This Stock Spotlight was originally published on 5 September 2019.



Viva Leisure (VVA.ASX) is a regional health club operator in Australia. The company operates over forty clubs, mostly in regional towns and mainly under the brand Club Lime and Hiit Republic. VVA's key differentiator amongst its competitors is their tailoring of each club to the relevant demographics and a **technology driven approach like no other**.

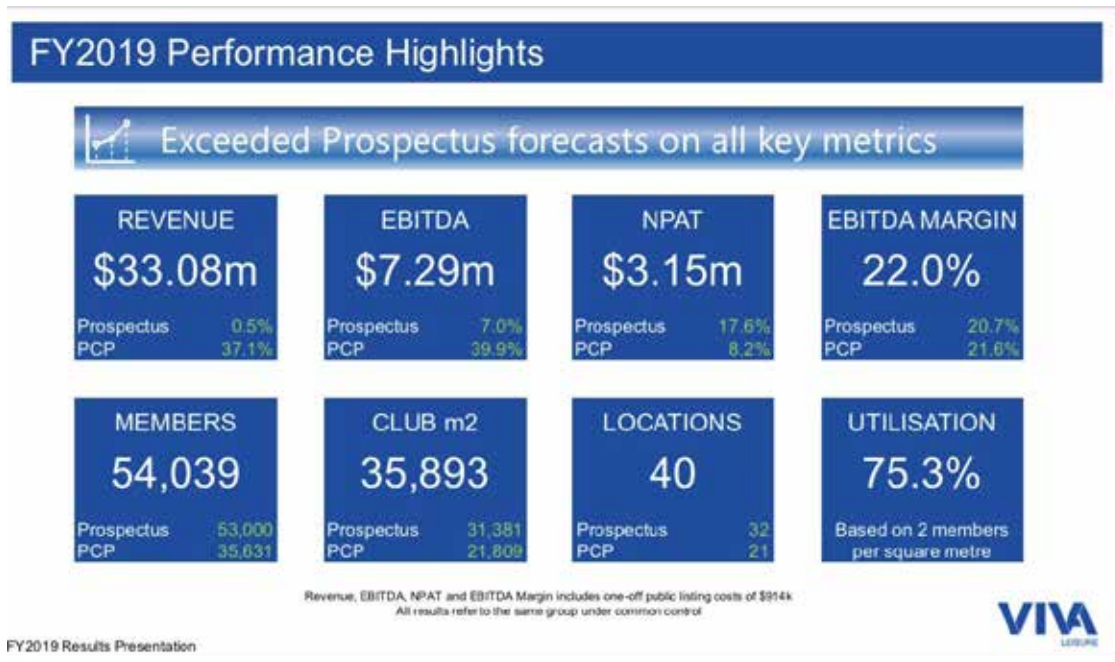


VVA ticks all the boxes for the kind of business we are looking for:

- Founder led, with the MD, Harry Konstantinou, and his family owning 50% of the company. They have not sold any shares at IPO either.
- Recurring and predictable revenue with all members signed up to a fortnightly direct debit plan.
- Exposed to the Health and fitness sector which is less impacted by general economic downturns.
- Technology and data driven business leading to industry best profit margins.



- Strong free cash flow generation.
- Estimated to grow at 30% p.a. for the next three years.
- Trading on a single digit forward multiple.

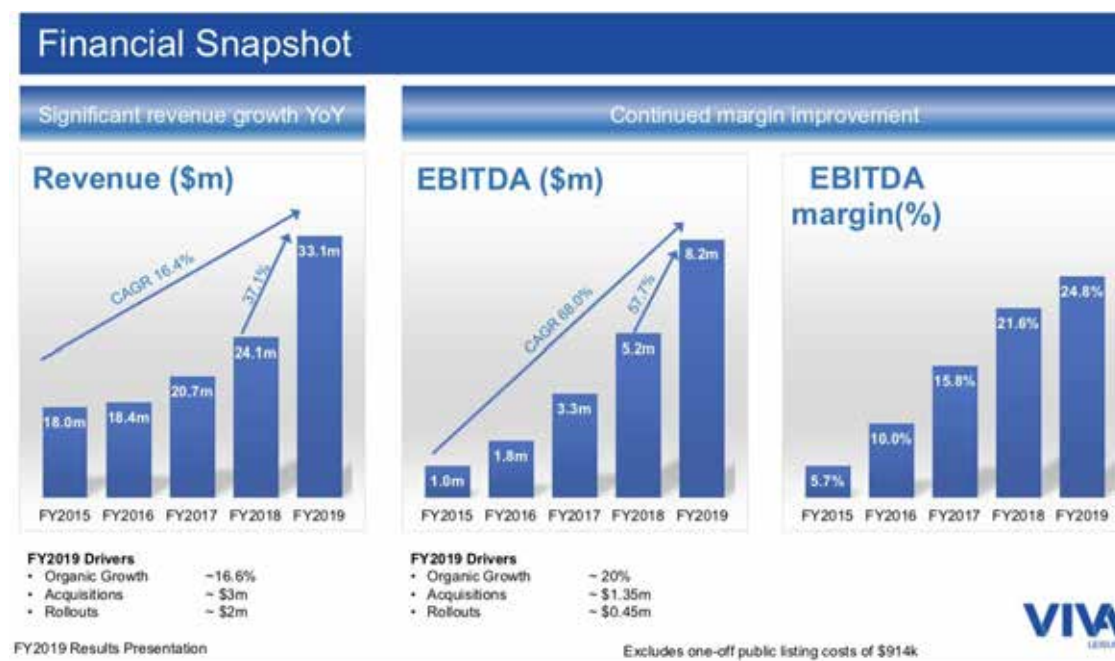


Source: Company filings

In our mind **VVA is a technology company that is operating fitness clubs**. The founders have all come from successful IT and technology businesses in the past. Member and club occupancy and visitations are tracked on an hourly basis enabling the company to manage each location occupancy levels and cost base. This data also allows management to reduce churn by targeting members whose frequency of attendance has declined.

The company, with its **internal team of developers, is capable of developing and launching new and innovative services for members** that no other competitor can. These include a fully automated sign up process online with no need for staff interaction, online member dashboards to manage club visitation times, a mobile ID app that allows access into facilities by tapping your phone and much more.

The above has enabled VVA to grow and maintain a low churn in its member base. VVA has achieved EBITDA margins of 40% per club and 25% for the group in FY19. **These are best of breed margins for not just Australia but anywhere in the world.**



Source: Company filings

VVA's main brand is their Club Lime fitness centres but they have also launched Hiit Republic. This is their own version of F45, the popular high intensity interval training chain.



VVA's "hub and spoke" approach to each area they operate in is also a unique approach in the industry. When VVA enters a new area, it opens a large club and, as occupancy levels reach the target level of two members per square meter, further smaller locations are open in the nearby vicinity with each one having a slightly different offering. This provides more flexibility for members and reduces member congestion in peak hours.

Introducing FaaS *our data is what makes us different*

The Viva Fitness as a Service (FaaS) model

	Viva Leisure's Model	Traditional Model
Pricing	Affordable, no contract, no joining fee	Expensive locked-in pricing model with joining fees
Sign-up Process	Online, 3 minutes to complete, no paper forms	Paper based, completed in person, sometimes requiring an "interview to join"; or join online by completing direct debit authority, and then membership form in club (on paper)
Capacity	Targeting 2 members per square metre, additional spoke locations added as target approaching; ensures quality of service offering maintained	Sign-up as many members as possible into the one location, no understanding of service offering, hope they don't all use their membership
Terms	Flexible terms, no fixed contracts, 28-day cancellation process	Locked-in long term contracts, difficult to exit
Offering	With locations of all sizes, the complete service, class and equipment offering is available across the network of facilities	Limited offering based on available space. Franchise operators offering identical equipment in all locations.
Ease of Use	Intuitive membership self-serve portal and app ¹ to manage membership	All membership management via email, telephone or in-person at the club

FY2019 Results Presentation

¹App launches September 2019

Source: Company filings



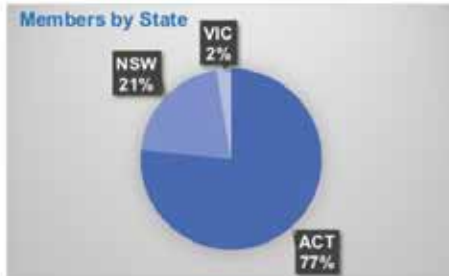
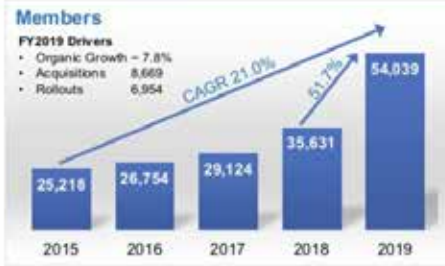
From a financial and growth perspective, VVA is an exciting proposition for investors. Not only has VVA beaten all prospectus forecasts so far but their growth is accelerating much faster than expected. The company has forty-two operating locations and has secured a further eleven more to open in FY20. The company has a target of opening 15-20 new locations per annum for the next 3-5 years. Typical club breaks even within 4-6 weeks from launch.

Additionally, the company's IPO proceeds have provided them with **a strong balance sheet in possession of \$14m in net cash** to fund acquisitions at 3-4x EBITDA multiples. There are currently 24 targets in the pipeline which could deliver significant further growth in the year ahead - watch this space.

VVA currently has 57,000 members with each one paying on average \$16 per week. The company is, on average, adding 1,300 members per month. We estimate FY20 to see an average of 63,000 members growing to 77,000 in FY21. **Based on this we expect FY20 revenues of \$53m growing to \$64m in FY21.** EBITDA margins should exceed 25% for the group and over time head towards 30%.



Members Snapshot



FY2019 Results Presentation



Source: Company filings

Based on the above and excluding the new AASB16 lease accounting changes, we expect EBITDA to reach approximately \$13m this year and \$17m in FY21. The current EV is \$56m which places **VVA on a 3.8x FY21 multiple**. On an EPS level we expect 12.5 cents EPS this year growing to 17 cents in FY21, which places VVA on a 8.5x PE multiple. **This is exceptional value.**

Domestic Health and Leisure companies are trading on 8x EV multiples with earnings growth of 10% compared to VVA growing at 30%. **We expect acquisitions to present upside risk to these forecasts.**

VVA is a high quality, cash generative business that is technology focused and driven, yet completely overlooked by the wider investor community. **We value VVA at approximately \$2.60 (80% upside)** and it is currently one of our larger holdings in the TAMIM All Cap IMA portfolios.



Overview

The TAMIM Australian All Cap IMA uses a value based approach to identifying companies that meet our fundamentals based investment process. We aim to generate long term capital growth by targeting companies exhibiting strong financial capabilities of growing earnings, cash generation and industry tailwinds.

Key Facts

Investment Structure:	Individually Managed Account (only available to wholesale or sophisticated investors)
Minimum investment:	A\$250,000
Pricing & Reporting:	Daily
Investment horizon:	3-5+ years
Management fee:	1.50% p.a.
Expense recovery fee:	Nil
Performance fee:	20% of performance in excess of hurdle
Hurdle:	RBA Cash Rate + 2.5%
Administration fee:	Nil
Exit fee:	1% if exit within 12 months
Single security limit:	10% (typical)
Benchmark:	ASX 300
Target number of holdings:	10-40
Portfolio turnover:	< 25% p.a.
Investable universe:	ASX
Cash level (typical):	0-100% (10-40%)

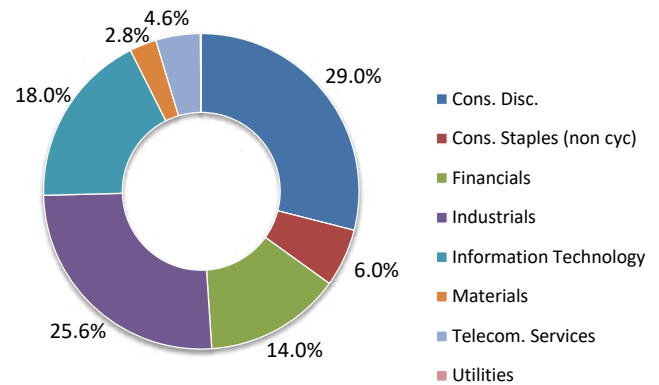
Selection of 5 Holdings

Stock	Code
PointsBet	PBH
People Infrastructure	PPE
EML Payments	EML
Resimac	RMC
Noni B Group	NBL

Portfolio Profile

Equities	83.6%
Cash	16.4%

Sector Allocation



Monthly Return Stream

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2016	-	-	-	-	-	-	-	-	-	-	-	0.07%	0.07%
2017	0.37%	-0.94%	1.46%	2.04%	0.43%	1.46%	0.17%	-0.15%	1.58%	3.21%	3.01%	1.20%	14.66%
2018	-2.12%	1.98%	0.60%	1.50%	1.13%	-1.40%	-0.70%	-0.10%	0.61%	-4.23%	-1.67%	-2.72%	-7.08%
2019	-0.52%	4.45%	0.44%	3.26%	6.17%	1.44%	5.66%	4.55%					28.21%

Monthly Return Stream refers to the aggregated cumulative performance of all TAMIM Australian All Cap individually managed account portfolios since inception (31 Dec 2016) in AUD net of fees.

Note: Portfolio returns are quoted net of fees. The ASX 300 refers to the S&P/ASX 300 Accumulation Index. Returns shown for longer than 1 year (other than Inception) are annualised. Year to date (YTD) figures are accumulative. The information provided in this factsheet is intended for general use only. The information presented does not take into account the investment objectives, financial situation and advisory needs of any particular person nor does the information provided constitute investment advice. Under no circumstances should investments be based solely on the information herein. Please consider our Information Memorandum and Services Guide before investing in any of our products. Past performance is no guarantee of future returns. Returns displayed in this document are unaudited. For wholesale and sophisticated investors only.

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