



# Australian All Cap Portfolio

Individually Managed Account

## Monthly Update

January 2019

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# Australian All Cap Portfolio Update

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We provide this monthly report to you following conclusion of the month of January 2019.

The TAMIM Australian All Cap portfolio delivered a -0.52% return for the month of January. The largest positive contributors to performance were ADA, DDR, EBO and LGD. The largest detractor was MPW, followed by JAN and ISD.

We will discuss the above holdings and others in more detail in the Portfolio Update section of this report.

Following one of the worst December quarters since the GFC, January saw a remarkable turnaround in investor sentiment. As we mentioned in our last newsletter, we turned quite positive in early January as we saw value emerging across the board following the savage selloff in November and December.

The old adage of “sentiment is fickle” and can “turn on a dime” was evident during the month. Investors took relief for several reasons including, the US Federal Reserve's dovish interest rate policy, US government shutdown resolution and better progress in US and China trade discussions.

In Australia, general economic indicators have worsened with the NAB Business Condition Index survey showing a slowdown while the Reserve bank held rates and downgraded its GDP growth forecast from 3.5% to 3%. We now see a higher probability of an interest rate cut later in the year.

Overall, market indices had a strong bounce during the month mostly driven by technology names and resource stocks. Afterpay (APT), Altium (ALU), Nearmap (NEA) and Appen (APX) are good examples of stocks that had a strong turnaround in January. Although we are well aware of these businesses, we struggle to justify buying them at their current lofty valuation

multiples. We can see the current appeal as momentum trades though.

Finally, we continued rebalancing and adjusting the portfolio away from holdings where the fundamentals are no longer intact. We have added several new positions which we will discuss here and in future reports.

Over the next few weeks we will be meeting and analysing hundreds of company financial reports during reporting season. We expect the majority of our portfolio holdings to report strong growth and positive outlook statements for the year ahead.

We see the next few weeks as a key catalyst for a re-rating and we expect a turnaround in performance for the portfolio over the ensuing months and the year ahead.

We look forward to discussing the February reporting period in more detail in our next monthly update.

Sincerely,

Ron Shamgar and the TAMIM Team.

## Portfolio Updates

### MSL Solutions (MPW)

Reported a disappointing quarterly update with 1H 19 revenue declines of 8% and annualised recurring revenue (ARR) flat on Q1 at \$17.7M. Management attributed the revenue decline to a shift in software license sales from upfront payments to SaaS subscriptions, and lower hardware sales during the half. Operating cash flow was negative \$945k and more concerning the company has only \$1.4M of cash left.

On the positive side the sales pipeline has increased to a record \$50M and management expects a stronger 2H19 result with positive operating cash flows. Although we view MPW's industry (club and stadium technology needs) and market opportunity (World Golf Handicap standard) favourably, we are concerned about the company running out of cash and the need to raise equity in the short term.



MPW was identified back in our December portfolio review as a stock that no longer met our original investment thesis. We have been gradually exiting the position since then, albeit at a slow pace, due to the lack of liquidity in the stock. At the current valuation of \$20M we see possible upside if the company can avoid raising equity by selling its estimated \$6M shareholding in technology company Zuuse, and better than expected sales conversion in 2H19.

### **Dicker Data (DDR)**

DDR continued its streak of year on year revenue and profit growth by exceeding 2018 guidance. Revenue was up 14% to just under \$1.5B and PBT up 15% to \$46M, exceeding guidance by 8%. DDR is one of our top holdings and we consider the company as a “best of breed” IT distribution business in Australia and NZ. Management has continued to acquire shares on market over the last few months. This is another sign that gives us confidence.

### **Janison Education (JAN)**

Reported a mixed quarterly update with revenue growth of 18% to \$10M, normalized EBITDA down 56% to \$0.5M and cash balance of \$6.8M. Management flagged non-recurring expenses of \$0.8M due to the launch of several large contracts which should contribute in the 2H to higher revenues and margins.

We see JAN as a massive beneficiary of structural shifts globally from paper based tests in schools and universities to online assessments. The company has given its ambitious and strategic target of over \$120M in revenues by 2025 which will be driven by both organic growth and acquisitions. We expect the latter to show traction, with an acquisition flagged before the end of FY19.

### **Adacel Technologies (ADA)**

ADA updated the market on its largest customer contract renewal. The renewal, of the US Air Force Tower Simulator System Support Contract, will see ADA retain responsibility for the maintenance and support of Tower Simulation Units at US Air Force installations across the world. The contract, out to November 2023, is valued at \$32M or \$6.4M per year. We bought ADA at 65 cents back in December and saw the

stock rally as high as 97 cents following the announcement.

ADA is a software company providing flight simulators and air traffic control systems to airports all over the world. The company disappointed market expectations last year with the loss of a major customer in the US and a profit downgrade. The share price has declined from \$3 a year ago (\$220M market cap) to as low as 60 cents (\$50M cap) more recently.

We estimate the company can earn \$7M NPAT this year, which we view as extremely appealing when coupled with a \$10M cash balance and a market cap of \$65M. ADA is trading at an undemanding valuation and is a possible takeover target due to its position as a leading global software provider of critical systems to the air traffic control and flight simulator industries. We value ADA at over \$1.20.

### **Data#3 (DTL)**

Data#3 upgraded 1H19 NPBT guidance from \$7-\$8.5M to \$8.5-\$9M. Revised guidance is now up over 130% from 1H18 NPBT of \$4M. DTL is an IT services and solution company with \$1.2B of revenues and a track record of paying dividends over the years.

### **EML Payments (EML)**

Announced the launch of a branded reloadable winnings card program with Betsson in Sweden and Pointsbet in the US. Betsson is one of the largest gaming companies in Sweden, operating the Betsson, NordicBet & Betsafe brands. The program offers cardholders the ability to transfer their winnings from their gaming account onto the card instantly, giving cardholders access to cash using a Mastercard debit card. We expect further program launches in the coming weeks with GVC and Fortuna in Europe and possible other new partnerships in the US gaming market.

Investors are taking a wait and see approach with EML, as management has taken the sensible and conservative stance of not quantifying the revenue opportunity from these new program launches. We detailed our investment thesis for EML in our last monthly report and we are confident that our thesis will play out over the next few years. We value EML at over \$2 a share.



## Contact

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