



Australian All Cap Portfolio

Monthly Update

November 2019

TAMIM Asset Management
ABN 97 608 304 963 | AFSL 421469
1300 750 007

Australian All Cap Portfolio Update

Ron Shamgar

Head of Australian Equities,
Portfolio Manager



November was a positive month for equities with the Australian market reaching near record highs once again. Investor expectations continue to bet on additional rate cuts and monetary stimulus from the RBA. Overseas, China/US trade resolution hopes increased after commentary from President Trump. **We continue to believe a trade resolution will eventually be agreed to prior to the US elections next year.** This will be beneficial to equity markets worldwide.

November was also a busy month for us as many of our holdings held their AGMs and provided trading updates. We have also recently seen a flurry of deal making and capital raises as investor sentiment has turned positive. As some have noted, the capital market's flood gates are wide open. Several of our larger holdings performed extremely well during the month as business momentum continues for each company respectively.

During the month, the ASX Small Ords index was up +1.56% while the ASX300 was up +3.18%.

We are pleased to report the TAMIM Australian All Cap strategy continued its strong performance in November, delivering a +6.39% return.

Calendar year to date the underlying portfolio is up +53.52%. For context, the ASX300 has delivered a +26.33% return this year.

We received yet another takeover offer for one of our holdings, CML Group (CGR), in November; the sixth takeover in the last twelve months. This time the takeover was in the form of a merger proposal and we intend to take up fully in script. **We have also identified several new IPOs coming to market in December that we are very excited about.**

We will discuss those and other growth companies over the next few months as we build positions we are comfortable with. As we head into 2020, **we continue to see significant upside for the companies in our portfolio.**

We provide updates on a selection of our holdings in the Portfolio Update section of this report and we spotlight the recent transformational acquisition of our largest holding, EML Payments (EML).

We will provide further updates and commentary in our next monthly report.

We would also like to take this opportunity and wish our investors and readers a relaxing summer break and a happy new year. **We have never been more excited about what 2020 and the new decade may bring!**

Sincerely yours,

Ron Shamgar and the TAMIM Team.

Portfolio Updates

CML Group (CGR.ASX)

CML Group (CGR.ASX) received a takeover offer disguised as a merger from Consolidated Operations Group (COG) this month. COG is the largest asset finance broker aggregator in Australia with close to 20% market share. COG is offering script or script/cash options to CGR investors and a special dividend. Combined, the offer values CGR at about 53 cents, an almost 20% premium to CGR's share price prior to the offer.



COG to acquire all shares in CML with the Merged Group to remain listed but be renamed and rebranded

Combined Revenue ¹	\$264.9m
Combined EBITDA ¹	\$50.3m
Combined NPATA ¹	\$17.4m

Source: Company filings

Although the deal (in our opinion) undervalues CGR, it does make a lot of sense. The combined group will have material revenue synergies and improved scale. The merger generates cross selling opportunities for CGR's invoice financing products and COG's broker finance network. COG in turn gets access to CGR's lower bank funding costs and the larger market cap creates relevancy for larger institutional fund managers. **We are choosing to take the full script offer alongside CGR management.**

Smartpay (SMP.ASX)

SMP is a merchant payments business with a market leading position in New Zealand (20% share of merchant terminals). They also have a fast growing Australian merchant acquiring business that is currently annualising \$12m of recurring revenues and is estimated to grow between 50-70% p.a. over the next three years. The company recently received an offer of \$70m for its NZ assets which, at the time, was double the market valuation.

We view this asset in NZ as one of extreme strategic importance and **we expect market dynamics and structure to (eventually) force a bidding war.** To recap, all card transactions in NZ go through two switch providers in Paymark (acquired by Ingenico in 2018 for \$190m) and Eftpos NZ (owned by Verifone). Currently SMP routes transactions through Paymark for its 30,000 terminals (27% market share). **We believe Ingenico is incentivised to counter bid for SMP's NZ business. Watch this space.**

We took our position at under 20 cents in the last few months. Even at the current market price of over 50 cents, we think investors are not ascribing much value to the high growth Australian division. We see SMP's Australian business as a takeover target for the recently listed \$1.5bn Tyro (TYR) or maybe even private equity. **We value the stock at 70+ cents.**



Resimac (RMC.ASX)

Resimac (RMC.ASX) is one of our largest holdings and **we have been “banging the table”** on this company the whole year, since it was trading at 50 cents. During November **RMC upgraded profit guidance for 1H20 by 75% to \$24m-\$27m NPAT**. This profit increase is a result of the favourable interest margin movements we have been highlighting all year along with market share gains over the distracted banking sector.

The company is guiding investors to a lower 2H profit against 1H due to interest margin movements increasing slightly and management conservatism in general. Regardless, **we expect a minimum of \$50m NPAT or 12 cents EPS in results for FY20 which still sees the company trading on a PE of 9.5x while growing earnings at 25-30% p.a. the last four years**. Comparable peers are trading on 13-17x while growing at lower rates. **RMC is, in our opinion, the most under the radar \$500m company on the ASX! Our valuation is \$1.80.**

Mosaic Brands (MOZ.ASX)

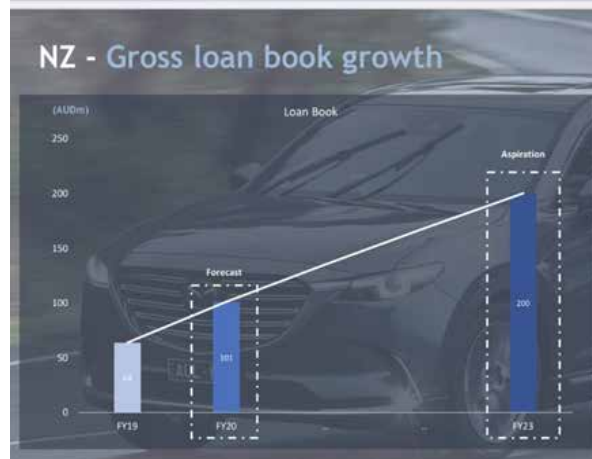
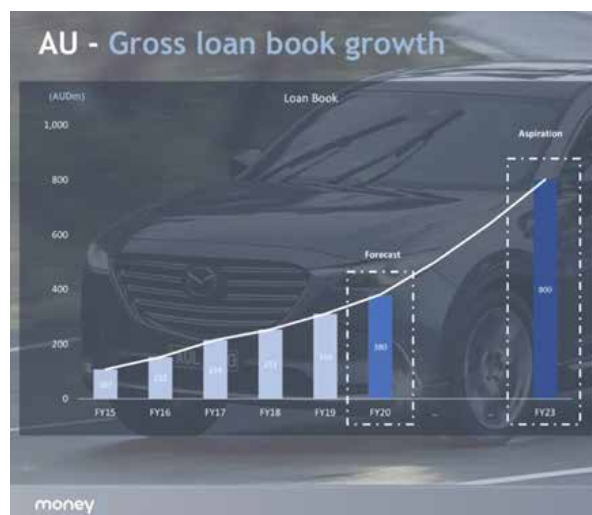
Mosaic Brands (MOZ.ASX) - formerly Noni B (NBL.ASX) - reaffirmed its \$75m EBITDA guidance and announced the acquisition of Ezibuy from its largest shareholder, Alceon. Ezibuy is a majority online NZ/Australian multi category retailer with \$135m in sales. Ezibuy has seen sales decline in the last few years and is now just breakeven. **The deal as structured is an attractive one for MOZ shareholders.**

Over the next 12 months, MOZ will acquire 50% of Ezibuy for free and has the option to acquire the remainder, if the turnaround is successful, for a flat \$11m. **Management estimates that \$9m in cost outs can be delivered which could place the acquisition on a 1-2x earnings multiple**. The key to MOZ's thesis is top line growth and that will be determined over the next twelve months. **We value MOZ \$4.00+.**

Money3 (MNY.ASX)

Money3 (MNY.ASX) is a fast growing car finance lender in Australia and NZ. The business is benefitting from a renewed focus after exiting the payday loan business and the move away from traditional bank finance by consumers. The AGM confirmed management guidance of NPAT in excess of \$30m for FY20. In addition, a dividend of 10 cents

was also reaffirmed for each of the next three years.



Source: Company filings

Finally (and for the first time), **the company guided to an aspirational target of a \$1 billion loan book in FY23** (compared to \$480m in FY20). If that is achieved, **we estimate the business to be earning over \$70m NPAT then**. That translates to a forward FY23 PE opportunity of 6x and share price upside of 150% over that period. The management team has highlighted their appetite for acquisitions and we expect any deals to be NZ based. The next big catalyst for MNY is securing cheaper bank warehouse funding. We expect this sometime during 2H FY20. **We value MNY at \$3.00.**

Stock Spotlight | EML Payments (EML.ASX) - A Game Changer

We first bought into EML at around the \$1.40 mark back in December 2018. EML has been our largest holding ever since. We spotlighted the stock back in February and have continued to provide our insights all year. Since day one we have said that, in our mind, **EML is one of the highest quality companies on the ASX**, having a predictable cash generative revenue stream that is growing fast and enjoying strong structural tailwinds globally.

The stock has since tripled to well over the \$4.00 mark and, with this week's game changing acquisition of European company Prepaid Financial Services (PFS), **we believe EML is set to double again over the next twelve months.**

EML is acquiring PFS for \$423m which includes an equity raise, debt and vendor equity. PFS is an award winning European fintech based in the UK. The company was founded by Noel Moran and his wife in 2008 and has been **profitable and self-funding ever since** (it is no wonder the couple have owned over 80% of PFS to this point). Noel Moran has also been awarded the CEO of the year in Europe for the second year running.

PFS has grown to become a major European player across the emerging verticals of digital banking services, government disbursement payments, consumer prepaid cards and multi-currency travel cards. Similar to EML, and unlike many global fintechs, PFS has grown profitably year on year. **PFS is forecast to generate \$84m revenue and \$24m EBITDA while processing \$5.4bn of Gross Debit Volume (GDV) in FY20.**



Overview of PFS

PFS at a Glance

PFS's prepaid payments and digital banking capabilities, regulatory Electronic Money Institution status in the UK and Europe alongside flexible software enables financial institutions and non-financial institutions alike to deliver feature-rich transactional banking and other prepaid payment services to their end-user base

£2.5 Billion

CY19E Gross Debit Volume

£12 Million

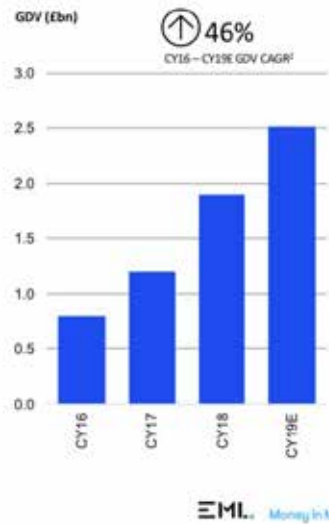
CY19E Adj. EBITDA¹

£40 Million

CY19E Adj. Net Revenue¹

↑ 33%

CY16 – CY19E Revenue CAGR



Source: Company filings

There are currently *fifteen million* millennial Europeans who are customers of digital banks across Europe. That figure is projected to grow to 85 million over the next 5+ years. We see EML powering these banks and enabling them to grow.

PFS not only brings scale and added profitability to EML, but it **provides further diversity across different verticals, product solutions and capabilities**, and growth optionality that were not available to EML prior. More importantly PFS will reduce the proportion of EML's revenue derived from gift cards (breakage income) and increase the group cash conversion to over 80% of profits.

In addition, there are significant processing efficiencies by combining the two companies and management estimates over \$6m of cost synergies will be achieved within two years. Management has emphasized the cultural fit within both businesses and all staff will be retained. We see significant cross sell opportunities available to both companies across different geographies and product suites (no overlap in product set).

Source: Company filings

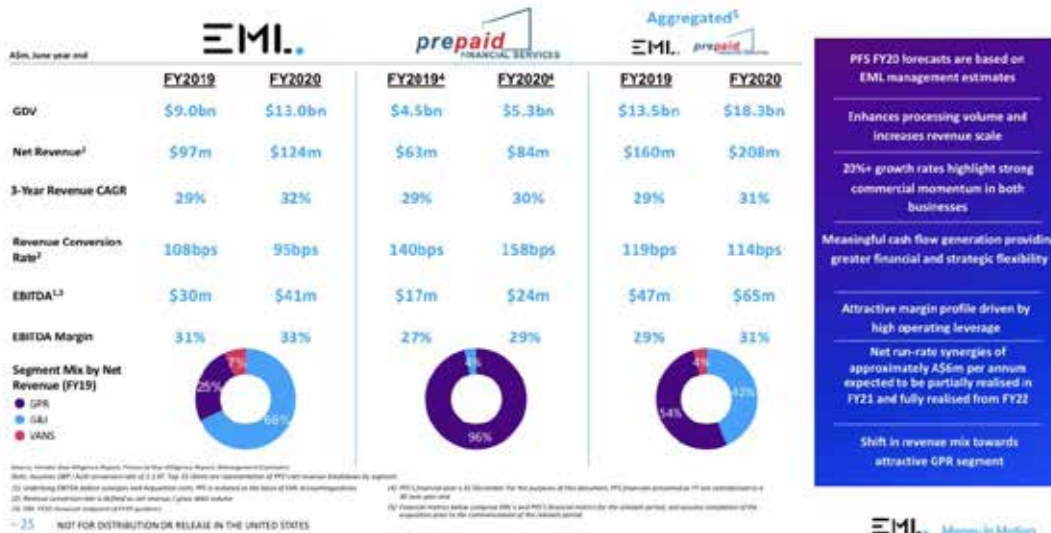
PFS has been growing at 33% p.a. over the last few years and both the CEO (founder Noel Moran) and COO are incentivised to exceed historical growth rates over the next three years to achieve an earn out of up to \$103m.

As a combined group and on a pro forma basis for FY20, management is forecasting GDV of \$18.3bn, revenues of \$208m and EBITDA of \$65m. If we take into account the \$6m in synergies and apply both companies' growth rates of 25% for the next two years (actual current growth rates are in excess of 30%), **we can see EML generating over \$110m EBITDA in FY22.**

There aren't too many global fintechs that can generate these growth rates in both top line revenue and, more importantly, bottom line profitability. The peer group that are profitable are seeing growth of about 15%+ p.a. and are trading on forward multiples of 18x. EML, on the other hand, is projected to grow at 25%+ p.a. for the next few years. We believe EML at this point in time deserves a premium of 25x multiple. Apply that to our FY22 forecast and we see an **EML valuation of almost \$3bn in market cap or, in other words, just under \$9.00 per share.**



Unaudited Pro Forma Combined Statements as if the Acquisition had been completed on 1 July, 2018



Source: Company filings

With the shares trading around \$4.00 prior to the deal (closing at \$4.35 yesterday in the wake of the news), **we expect a substantial re-rating of the stock over the next twelve months** as investors take the time to comprehend the magnitude of the deal, the different growth optionality now available to EML, and the upcoming inclusion into the ASX200 index. All of the above will see the larger funds and index trackers forced to buy the stock as not many companies in the ASX200 present such impressive global growth rates, profitability, and a recurring revenue profile that is so highly diversified and predictable.

We took the opportunity this past week to attend EMLcon (what they call their investor day) and listen to some of EML’s global customers presenting about how EML partners with them to help grow their businesses and innovate. We also took the opportunity to meet EML staff and were **impressed with the feedback received about how passionate they are working at EML.**

We came away from the event with the one conclusion - the world is in the midst of a payments revolution. Traditional banks and credit providers are being disrupted by new and emerging fintechs. Consumers are no longer using cash with mobile and debit card payments taking over. **EML is helping facilitate this structural shift from the background, powering these companies and providing the infrastructure, innovation and capabilities required to process these payments.**



Overview

The TAMIM Australian All Cap strategy 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 (IMA)

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%)

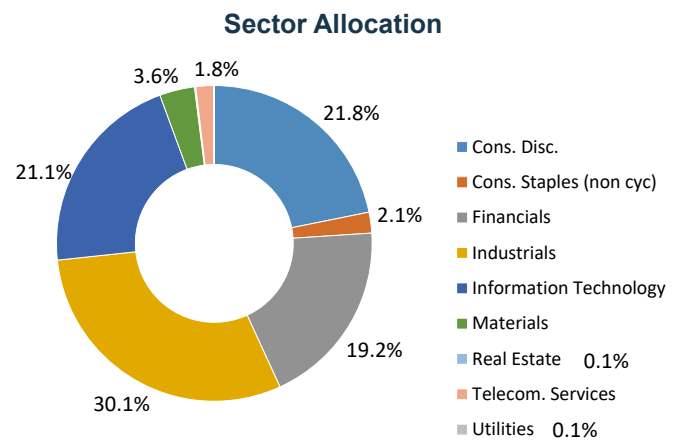
Note: This strategy is now also available in a unit trust structure as a unit class of the TAMIM Fund.

Selection of 5 Holdings

Stock	Code
Viva Leisure	VVA
Money3	MNY
EML Payments	EML
Resimac	RMC
Noni B Group	NBL

Portfolio Profile

Equities	87.9%
Cash	12.1%



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%	11.79%	0.68%	7.19%		54.68%

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 up to 30 November 2019. From 1 December 2019 the Monthly Return Stream reflects the return on the TAMIM Fund: Australia All Cap unit class.

Note: Portfolio returns are quoted net of fees. 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.

Contact

Should you wish to discuss your investments or the various TAMIM solutions please do not hesitate to contact us:

Darren Katz

Managing Director

TAMIM

M 0405 147 230

E darren@tamim.com.au

Jeff Taitz

Managing Director

TAMIM

M 0403 444 040

E jeff@tamim.com.au

Disclaimer

The information provided should not be considered financial or investment advice and is general information intended only for wholesale clients (as defined in the Corporations Act). 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. You should seek personal financial advice before making any financial or investment decisions. The value of an investment may rise or fall with the changes in the market. Past performance is no guarantee of future returns. Investment returns are not guaranteed as all investments carry risk. This statement relates to any claims made regarding past performance of any Tamim (or associated companies) products. Tamim does not guarantee the accuracy of any information in this document, including information provided by third parties. Information can change without notice and Tamim will endeavour to update this document as soon as practicable after changes. Tamim Funds Management Pty Limited and CTSP Funds Management Pty Ltd trading as Tamim Asset Management and its related entities do not accept responsibility for any inaccuracy or any actions taken in reliance upon this advice. All information provided in this document is correct at the time of writing and is subject to change due to changes in legislation. Please contact Tamim if you wish to confirm the currency of any information in the document.

