

# Australia All Cap Unit Class

## TAMIM Fund

At 30 November 2020

2020 has been a roller coaster and November was definitely a monumental and defining month for the year. This month we not only had a very contentious US election result but, more importantly, three COVID-19 vaccines have emerged with very promising efficacy results.

The good news combination of a Biden presidential win and the prospect of normalcy returning with covid vaccines being rolled out much quicker than anticipated, saw markets rally to the best November returns since 1988.

The ASX300 was up +10.23% and the Small Ords was up +10.27% in November. **The TAMIM Fund: Australia All Cap portfolio continued to outperform, finishing the month up +11.96% net of all fees.**

**CYTD the Fund is up +16.86% and +17.70% in the last twelve months..**

November saw a marked rotation from the “covid winners” (mostly technology stocks) to the “vaccine winners” such as “old-world economy” businesses that will benefit from the economy opening up. Most of these are referred to as value stocks and, as investors search for better value and dividend yield, many of these rotated strongly during the month.

We have been anticipating this rotation for a couple of months now and have positioned the portfolio accordingly. Although we don't believe that the covid winners, such as payments, telco and e-commerce companies, won't continue to grow. We think valuations are stretched in many cases and so there's more risk of disappointment for investors.

As we look to enter 2021, we are quite optimistic for the Australian economy and the world in general. We believe our portfolios have the right balance between growth and value. We still expect market volatility to continue but are quite confident better times are ahead for all of us here and abroad.

Below we provide a brief update on some November news flow from our holdings in the Portfolio Update section of the report. We also detail three telco stocks we own and like.

And finally, we would like to wish everyone a happy and relaxing holiday season. Stay safe and enjoy your time with family and

### Monthly Return Stream

Note: Individually Managed Account (IMA) returns will, by their nature, vary from the underlying portfolio. Should you wish to see your individual return, please log in to your account online.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	YTD
2016	-	-	-	-	-	-	-	-	-	-	-	0.07%	<b>0.07%</b>
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%	<b>14.66%</b>
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%	<b>-7.08%</b>
2019	-0.52%	4.45%	0.44%	3.26%	6.17%	1.44%	5.66%	4.55%	11.79%	0.68%	7.19%	0.71%	<b>55.78%</b>
2020	6.83%	-11.44%	-34.25%	16.54%	13.54%	1.44%	11.34%	11.31%	-0.52%	1.50%	11.96%		<b>16.86%</b>

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

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.

### Key Facts

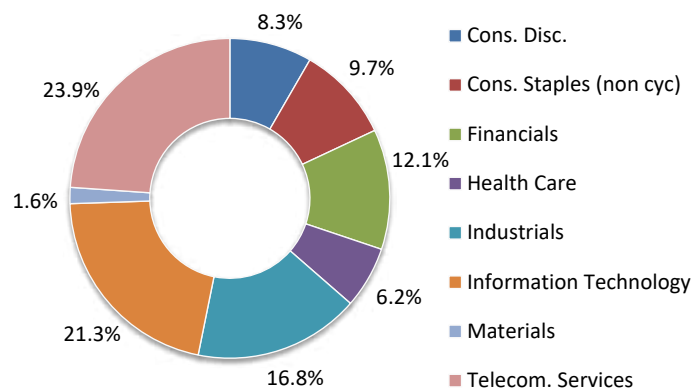
<b>Investment Structure:</b>	Unlisted unit trust
<b>Minimum investment:</b>	A\$100,000
<b>Applications:</b>	Monthly
<b>Redemptions:</b>	Monthly, with 30 days notice
<b>Unit pricing frequency:</b>	Monthly
<b>Distribution frequency:</b>	Semi-annual
<b>Management fee:</b>	1.25% p.a.
<b>Performance fee:</b>	20% of performance in excess of hurdle
<b>Hurdle:</b>	RBA Cash Rate + 2.5%
<b>Lock up period:</b>	Nil
<b>Buy/Sell Spread:</b>	+0.25%/-0.25%
<b>Exit fee:</b>	Nil
<b>Administration &amp; expense recovery fee:</b>	Up to 0.35%

### NAV

	Buy Price	Mid Price	Redemption Price
<b>AU\$</b>	\$1.2648	\$1.2616	\$1.2585

### Portfolio Allocation

<b>Equity</b>	96.57%
<b>Cash</b>	3.43%



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friends. If 2020 has taught us anything, it is the appreciation of how important it is to spend time with our loved ones.

All the best for the festive season and a very happy new year!

Sincerely yours,

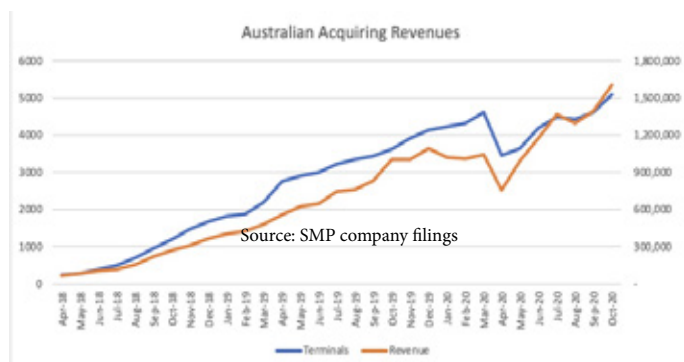
Ron Shamgar and the TAMIM Team.

## NOTE

*Covid-19 is a situation that continues to evolve; the facts and figures are changing day by day and affecting investment markets accordingly. What applies today may not apply tomorrow. One must stay informed and have their opinions and actions evolve appropriately. Stay safe, take appropriate precautions and be sensible.*

## Portfolio Update:

**Smartpay (SMP.ASX)** reported its 1H FY21 results during the month. The period of March to September coincided perfectly with the Covid lockdowns and downturn and yet the company managed to deliver an 8% increase in revenues, to \$14.5m, and just a 6% decrease in EBITDA, to \$3.6m.



More importantly, the Australian division is growing strong and was up 67% to \$6.3m but, at the end of October, is currently annualising over \$19m in revenues. The SMP thesis is all about the high growth Aussie business, with 5,000 terminals which we believe can double in a year. That alone, we believe, will drive good profit growth and **we value SMP at about \$1.00.**

**Evolve Education (EVO.ASX)** reported its last September half year end result as it moves to a calendar year end from next year. 1H EBITDA was \$12.3m and in line with guidance. EVO also announced a \$35m debt refinance which provides for \$20m of acquisition capacity in Australia, which could add \$4-5m of EBITDA.

The NZ centres are seeing good occupancy rates and the cost out program is ahead of budget. We estimate \$23m EBITDA in CY21 and further acquisition of childcare centres in Australia. We value the company at 23 cents.

**Vonex (VN8.ASX)** is a small but growing telco provider targeting small businesses with in-house developed phone system solutions. The company has finally turned profitable and, with the recent acquisition of 2SG, has expanded its wholesale network of resellers to sell its Optus mobile and wireless solutions and other telco software products.



We took a position in VN8 at 11 cents a year or so ago and we believe the company can grow both organically and acquisitively with the recent addition of an experienced M&A executive from another listed telco. Management has indicated that the sub-\$10m revenue telco segment is ripe for consolidation as larger listed peers are looking for bigger deals. **We value VN8 at 30 cents** and are already up approximately 150% since our initial investment.

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**Resimac (RMC.ASX)**, a top three holding, reported a 1H profit update significantly ahead of market expectations but in line with what we have been predicting all year long. 1H NPAT is now on track to be up 100% to \$48-\$53m. The result reflects AUM growth to \$12.7bn at the end of October, continued low cost of funding and disciplined cost control.

We estimate that RMC will report \$90-\$100m NPAT this year, a significant profit milestone that not many ASX listed companies ever achieve. This places RMC on a PE of just 8x. With a similar business coming to market soon in Liberty Financial, we believe investors will continue to re-rate the stock to the same multiple as its peers while RMC is growing faster than other listed companies. **We value RMC at \$3.00.**

**Empired (EPD.ASX)** provided a strong update at its November AGM and is now expecting \$89m 1H revenue, \$16.5m 1H EBITDA (\$4.8m of JobKeeper included) and operating cash flow conversion of 90%+. This should see EPD with a positive net cash balance by Christmas, which has allowed management to declare dividends from February next year.

### Strategy on a page



Source: EPD company filings

With a stronger balance sheet and good momentum we expect more large contracts to be announced in the next few months with acquisitions to resume next year. We value EPD at 90 cents. Additionally, with the sector consolidating recently, we believe EPD may end up in the crosshairs of an international suitor in the near future.

**Probiotec (PBP.ASX)** is a contract manufacturer and packing business to the vitamin, pharmaceutical and, more recently, food and beverage industries. PBP announced the acquisition of Multipack LJM for \$52m in November. LJM will add \$70m of revenues and makes PBP one of the larger packing and pharmaceutical contract manufacturers in Australia.

From FY22 we estimate the combined group will generate \$190m of revenues, \$33m of EBITDA and \$19m NPAT. The acquisition is 40% EPS accretive as management has utilised debt and script. PBP is currently trading on FY22 PE of 10x and a dividend yield of 2.8% while offering good growth and further M&A upside. **We believe the stock is worth about \$3.50.**



Source: PBP company filings

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## Stock Spotlight | 3 Telco Stocks to Become 1?

**Note:** This section was originally published online on 3 December 2020.

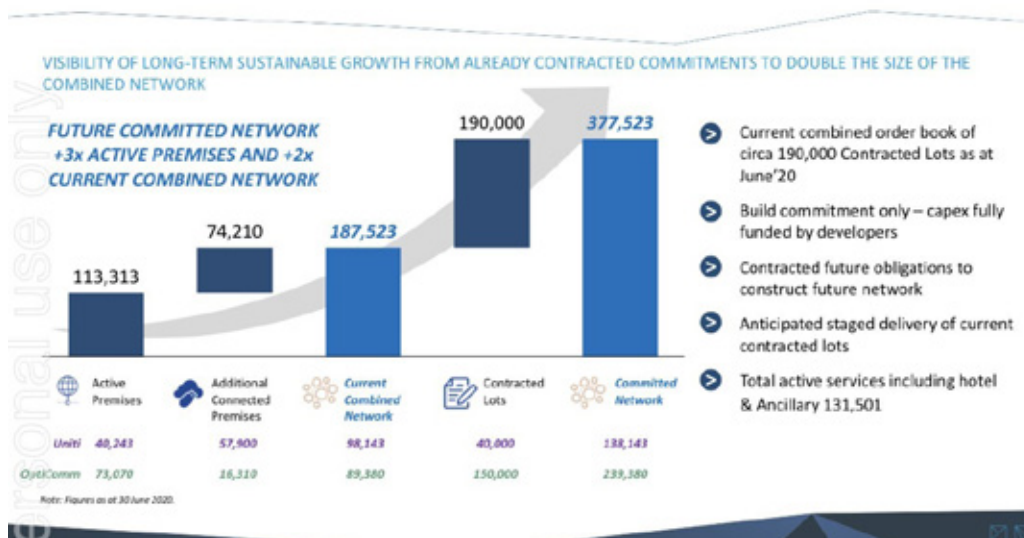
The telco sector is currently the largest thematic exposure we have across our portfolios. It's a sector we like because it's defensive and has been a key beneficiary from the Covid remote working environment. Every 5-10 years we also see a period where the industry goes through large rounds of consolidation, mergers and acquisitions that can last several years.

We have seen this begin recently. Think TPG merging with Vodafone, Uniti group acquiring Opticomm, Optus offering on amaysim's mobile business and many other deals at the smaller end of the market.

Our top three picks in the sector are, in our opinion, undervalued and could even become one larger company one day.

**Uniti Group (UWL.ASX)** is a fibre infrastructure play. UWL competes directly against the NBN and, following the acquisition with Opticomm (OPC), they now have 15% market share of Greenfield residential connections after the NBN.

### CONTRACTED ORGANIC GROWTH – UNITI & OPC COMBINED



Source: UWL company filings

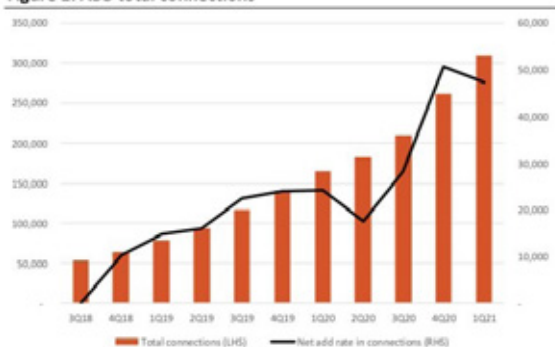
Although UWL had to pay up for OPC following a bidding war against industry super fund, Aware, it does highlight the desired quality of an annuity, long life, cash generating fibre business. In addition, UWL recently received ACCC clearance for functional separation which means they can now sell internet services direct to consumers. This will allow UWL to capture more of the value chain margin and acquire more internet service providers (ISPs) in future.

We forecast UWL to deliver in excess of \$100m of EBITDA in FY22 which places the stock on 11x EV/EBITDA. We also expect the stock to enter the ASX200 early next year. **We value UWL at \$2.00.**

**Aussie Broadband (ABB.ASX)** is a pure play ISP provider which only listed a month ago and is already up 100% from its IPO price. Despite this, we believe it is still undervalued. ABB is the fastest growing (organic growth with no acquisitions) ISP brand in Australia with almost 90% year on year growth in residential connections, 310,000 during Q1 FY21.

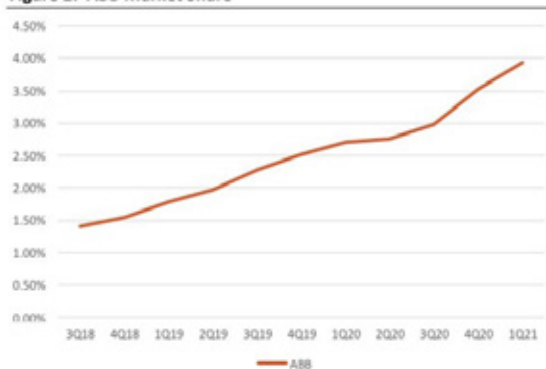
ABB has taken 11% of all new NBN residential connections during Q1, a number which contrasts well to their current overall market share of 4%. This key metric is significant as it highlights that the company is taking share and is a good indicator of future growth.

Figure 1: ABB total connections



Source: ACCC & Shaw and Partners

Figure 2: ABB Market Share



Source: ACCC & Shaw and Partners

Source: ABB company filings

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Additionally, ABB is currently rolling out its own fibre infrastructure in the Australia's main cities to connect directly to the NBN points of interconnections. This will allow ABB to save over \$15m in costs and is all EBITDA margin by FY23. ABB can also sell add on services on this fibre to corporate customers.

We estimate that ABB will have over 500,000 residential connections by FY23 and EBITDA in excess of \$55m. We value ABB at \$3.00+ and believe it is a potential takeover target for UWL in the future.

Figure 5: ABB net adds/total net adds for the sector



Source: ACCC & Shaw and Partners

Source: ABB company filings

**Spirit Technology Solutions (ST1.ASX)** is a modern IT services and telco provider, mostly to SMEs and corporate/government clients. ST1 is fast acquiring smaller telco and IT businesses and has recently entered the cyber security sector via two acquisitions. ST1's strategy is to become a one stop shop provider to its customers. Offering not just internet/data connectivity, but managed IT services, cloud software and cyber security solutions.



ST1 is currently annualising over \$100m in revenues and EBITDA margins of about 15%. We believe more acquisitions will occur in 2H FY21 and, in our estimation, the company is well funded to complete one further deal. We estimate ST1 to exit FY21 on a revenue run rate of \$150m+.

Part of our investment thesis in ST1 is backing its Managing Director, Sol Lukatsky, who has transformed this business over the last twelve months. We believe Lukatsky is focussed on crystallising shareholder value in the next 18-24 months through a merger or sale transaction. Once again, we see UWL as a potential acquirer as they have actually made a bid for ST1 in the past, almost two years ago. Watch this space. **We value ST1 at 55 cents.**

## Intalock Acquisition – Deal Rationale

Acquisition positions Spirit Technology Solutions deeper into Corporate & Govt segment with Cyber Security. Allows for material deal size sales with bundles to be sold: Cloud, Data, Voice, MSP & Cyber Security offering.

- Intalock is one of Australia's leading Cyber security services businesses with a sophisticated full Security Operations Centre (SOC).
- Comprehensive Cyber Security offering, with blue chip customer portfolio across Corporate and Government – in line with Spirit's market expansion strategy for FY21 into Corporate markets.
- Intalock generated revenue of \$23.6M and normalised EBITDA of \$2.3M in FY20.

Transaction summary:

- Upfront consideration of \$15.0M paid as a combination of cash (85%) and Spirit equity (15%) with a deferred consideration component. An additional earn-out consideration component is also available for out-performance in FY22 capped to maximum total transaction value of \$22.5M.
- Transaction EBITDA multiple of x6.5.
- Cash component will be paid from cash reserves and CBA debt facility.



Source: ST1 company filings