

# Spheria Emerging Companies Limited (ASX:SEC)

1HFY23 Results & Portfolio Update

28 February 2023

# Disclaimer

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Note: Past performance is not a reliable indicator of future performance.

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# Agenda

1. SEC Company update
2. Portfolio update
3. Questions



# SEC Company Update

# 1HFY2023 Highlights

1HFY23 Profit	Company performance <sup>1</sup>	Dividends <sup>2</sup>	Yield	Yield (including franking)
\$4.3m	+4.0%	4.3c	4.8% <sup>3</sup>	6.8% <sup>4</sup>

- 1HFY23 net profit after tax of \$4.3 million
- Company Performance of +4.0%, - 3.0% compared to benchmark<sup>5</sup> of +7.0% (+2.0% p.a. to benchmark since inception date of 30 November 2017)
- Quarterly dividends declared for the half-year of 4.3 cents per share (fully franked)<sup>2</sup>
- Trailing dividend yield equal to 4.8%<sup>3</sup> (6.8%<sup>4</sup> including franking)

<sup>1</sup> Calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after company expenses.

<sup>2</sup> Comprising September 22 quarter dividend of 2.1 cents (paid 3 November 2022) and December 22 quarter dividend of 2.2 cents (paid 6 February 2023).

<sup>3</sup> Trailing dividend yield based on total quarterly dividends for calendar year 2022 of 9.0 cents, calculated on share price as at 31 December 2022 of \$1.89.

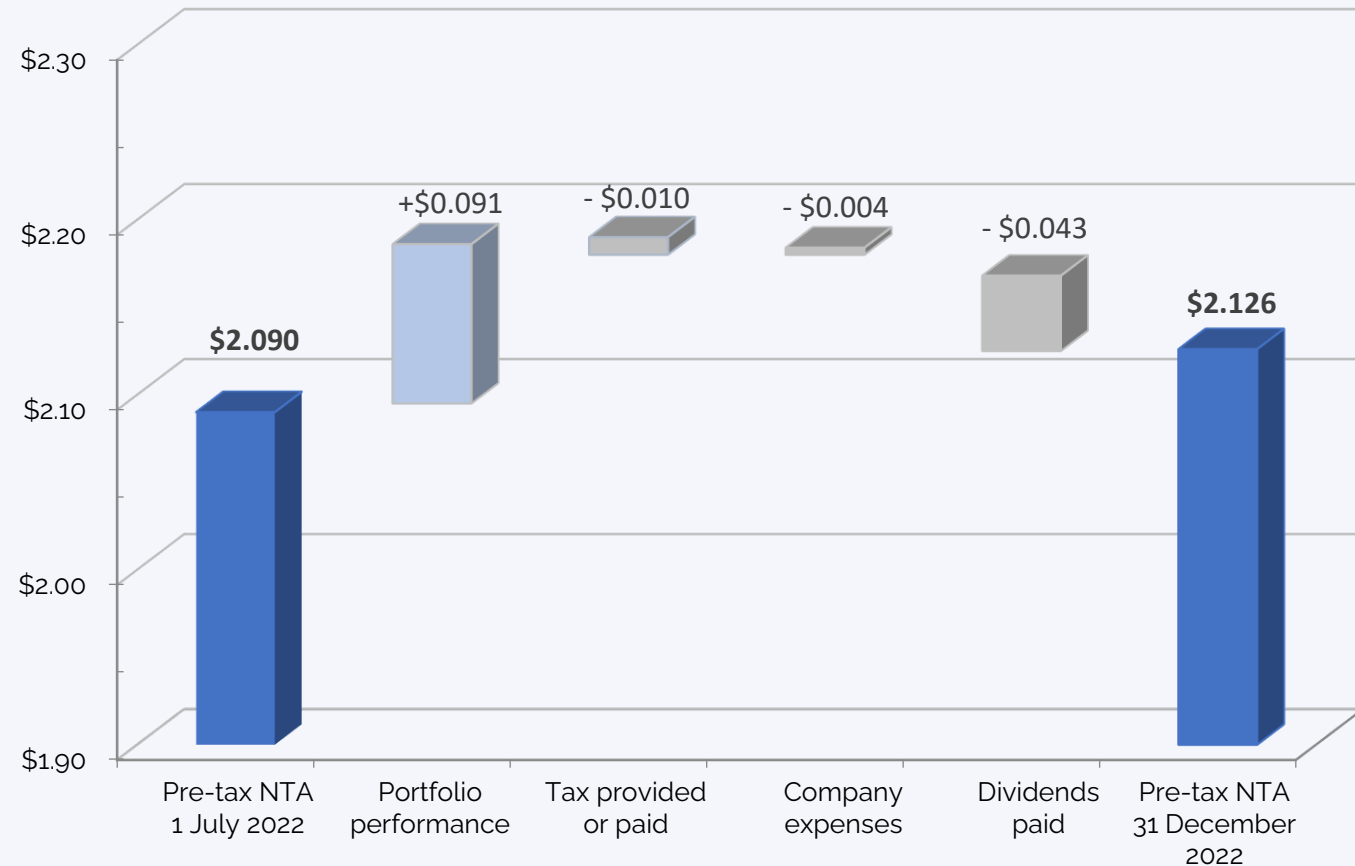
<sup>4</sup> Trailing dividend yield including franking credits based on total quarterly dividends for calendar year 2022 of 9.0 cents, calculated on share price as at 31 December 2022 of \$1.89, using 30% tax rate.

<sup>5</sup> S&P / ASX Small Ordinaries Accumulation Index

# NTA breakdown for 1HFY23

Market rise less dividends paid leads to an increase in NTA per share

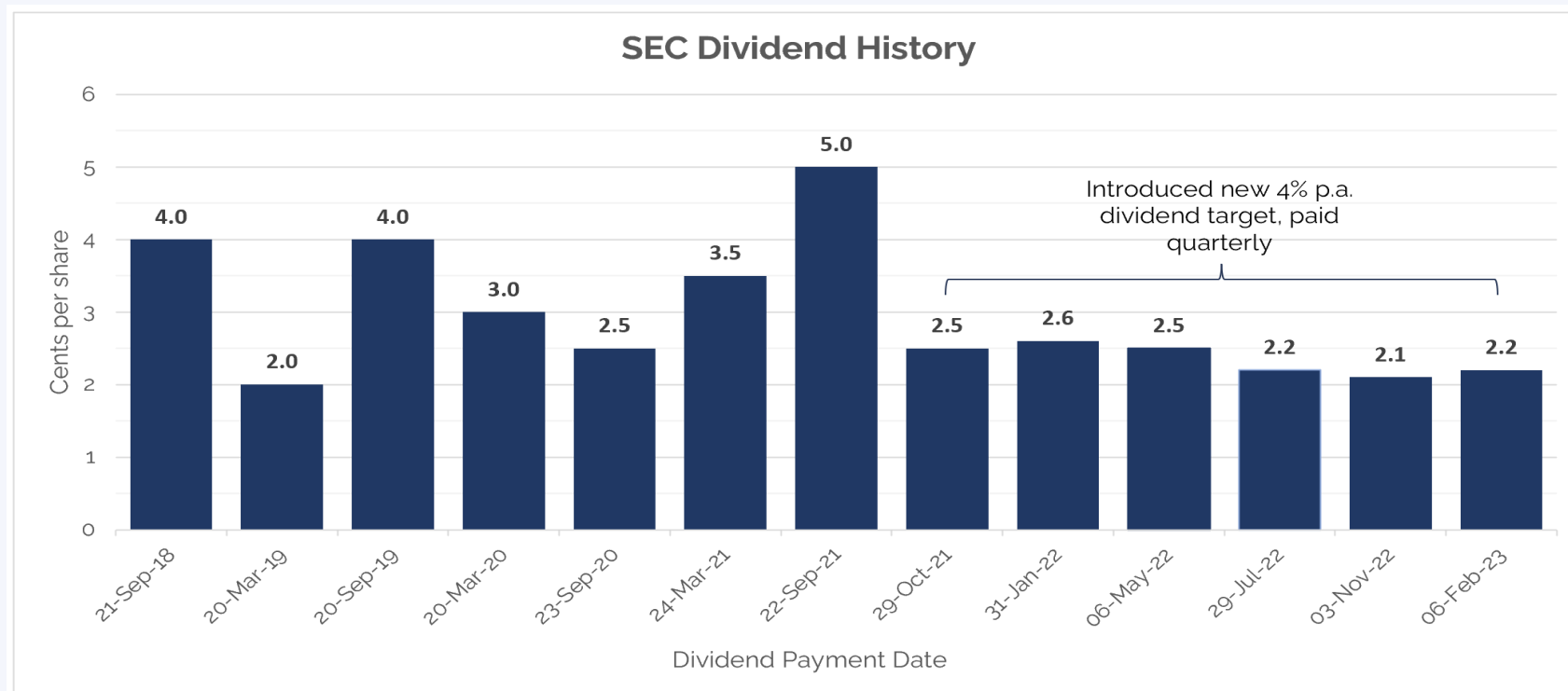
- Pre-tax NTA increased by \$0.036 from \$2.090 at 30 June 2022 to \$2.126 at 31 December 2022
- Post-tax NTA as at 31 December 2022 was \$2.180 per share, which was \$0.054 higher than pre-tax NTA, representing the value of tax on unrealised investment portfolio losses at period end, at the Company tax rate of 30%



# Dividends

## Delivering on the targeted 4% p.a. NTA dividend yield commitment

- Six consecutive quarterly dividends declared since moving to a quarterly dividend at 1% of post-tax NTA
- Targeted dividend yield of 4% of NTA (5.7% including franking), equal to trailing dividend yield of 4.8%<sup>1</sup> (6.8%<sup>2</sup> including franking) on share price as at 31 December 2022
- Total dividends since IPO of 38.1 cents per share (19% of the \$2.00 IPO price)



Source: Spheria Emerging Companies

<sup>1</sup>Trailing dividend yield based on total quarterly dividends for calendar year 2022 of 9.0 cents, calculated on share price as at 31 December 2022 of \$1.89.

<sup>2</sup>Trailing dividend yield including franking credits based on total quarterly dividends for calendar year 2022 of 9.0 cents, calculated on share price as at 31 December 2022 of \$1.89, using 30% tax rate.

# Performance History

Since inception Company outperformance of 2.0% p.a.

## SEC Company performance

SEC Limited Net Performance as at 31st Dec 2022									
Period	1 month	3 month	FYTD	1 year	3 year (pa)	5 year (pa)	Since Inception (pa)	Inception Date	
SEC Ltd.	-2.9%	4.0%	4.0%	-17.5%	4.8%	5.0%	5.5%	30/11/2017	
S&P/ASX Small Ordinaries Accumulation Index	-3.7%	7.5%	7.0%	-18.4%	1.4%	2.9%	3.5%		
<b>Difference</b>	<b>0.8%</b>	<b>-3.5%</b>	<b>-3.0%</b>	<b>0.9%</b>	<b>3.4%</b>	<b>2.1%</b>	<b>2.0%</b>		

Past performance is not a reliable indicator of future performance.

Company's performance is calculated as the Company's investment portfolio performance after fees excluding tax on realised and unrealised gains/losses and other earnings, and after company expenses Benchmark is the S&P/ASX Small Ordinaries Accumulation Index.

All p.a. returns are annualised



# SEC Portfolio Update

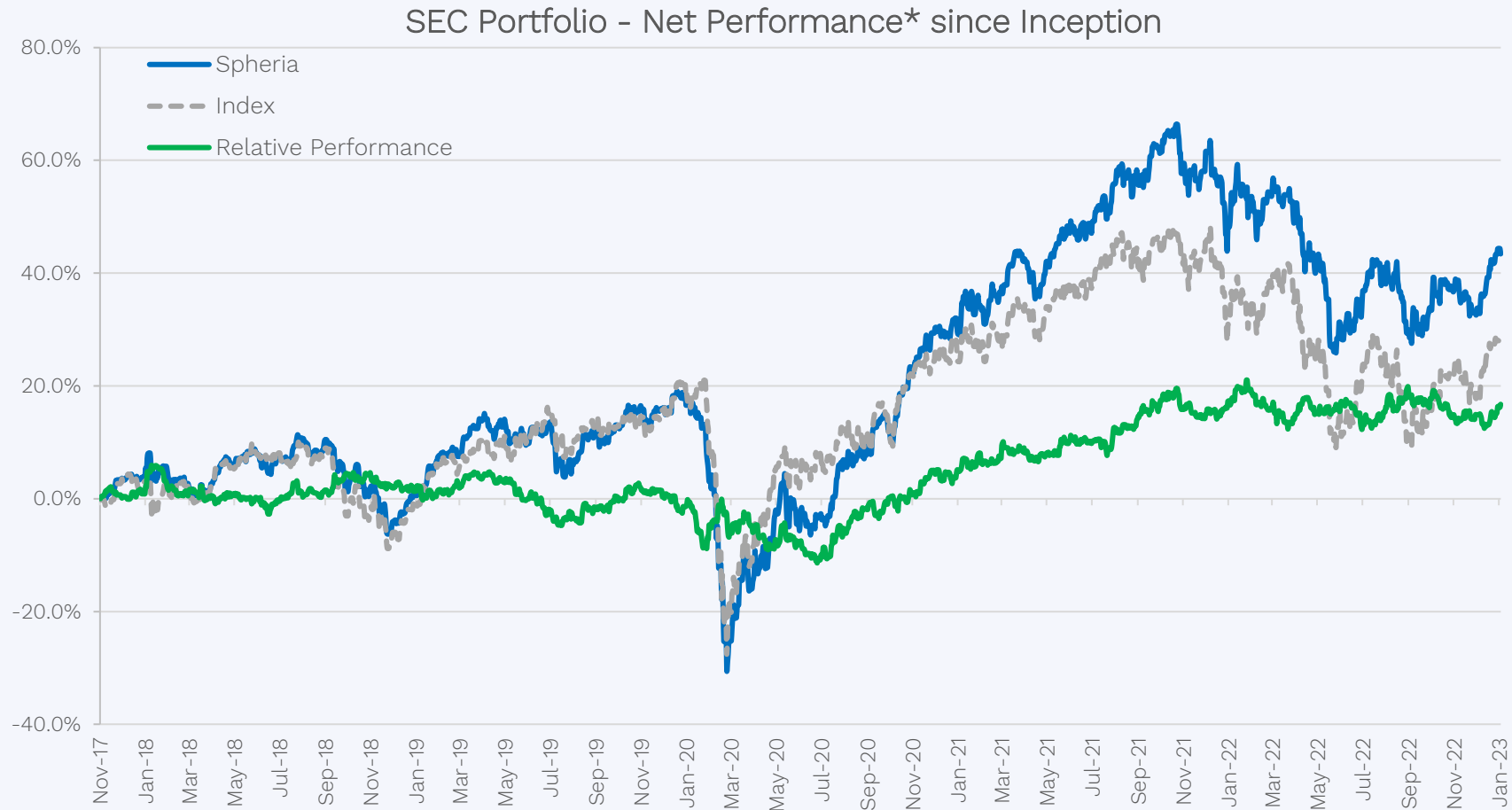
# Spheria Asset Management Investment Process

How our investment process is different

- 1. Focus on quality businesses with risk control overlay**
  - Sustainable free cash flow generation through the cycle
- 2. Fundamental investment focus**
  - Free cash flow valuation model
  - Lowly geared balance sheets (ideally)
  - Discount to valuation
- 3. Keep an open mind (facts change)**
  - Inflection points, changes in management/strategy, shifts in industry structure
- 4. Market under researched and inefficient outside of larger companies**

# SEC Portfolio Performance

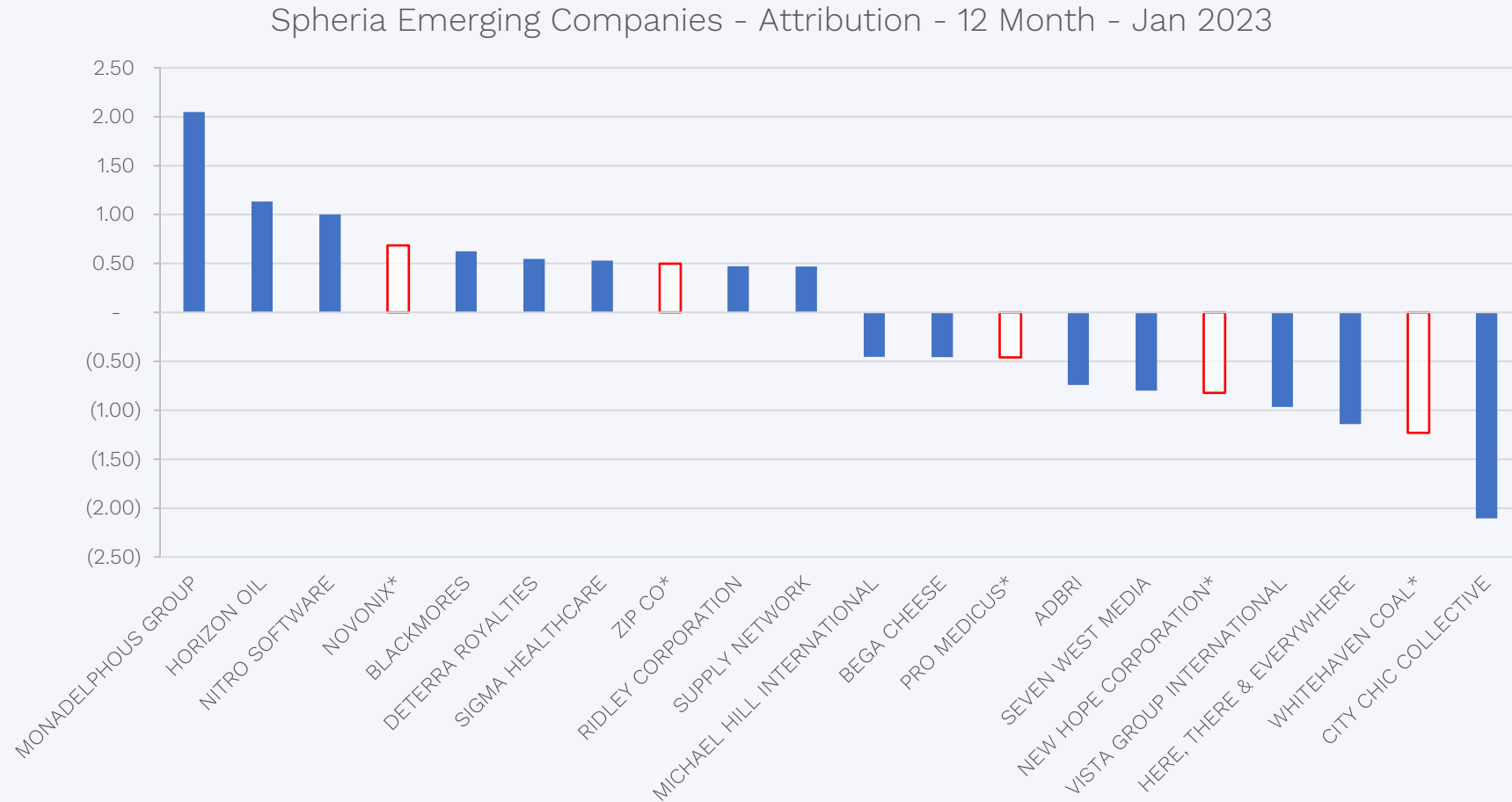
Strong relative performance in the last two years



\* Net Portfolio performance = investment performance of mandate after investment management fees but before taxes.

Source: Spheria Asset Management to 31<sup>st</sup> January 2023

# SEC Portfolio - stock attribution

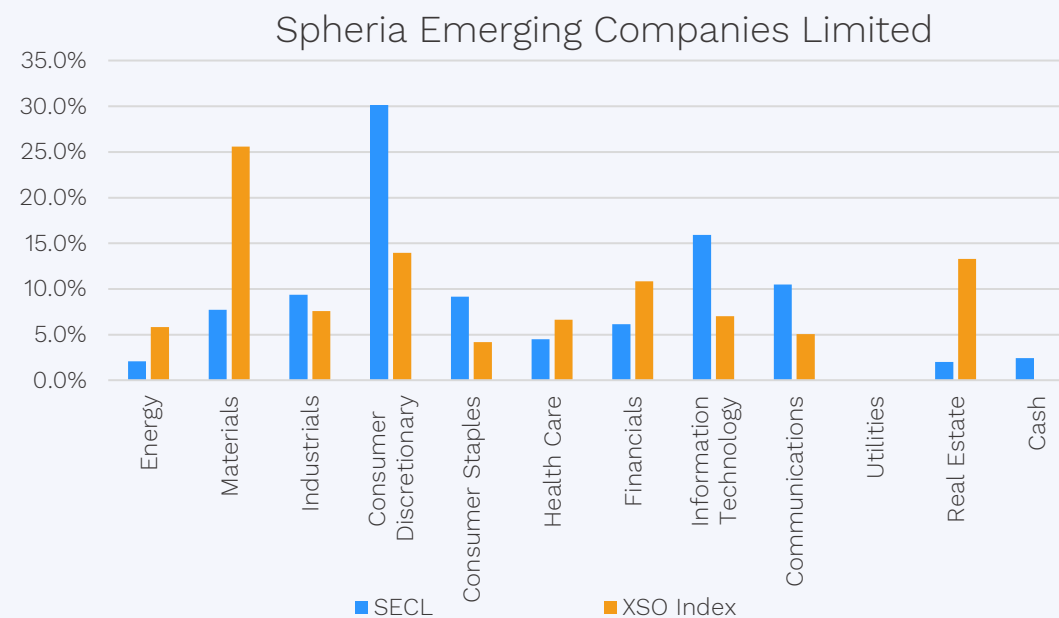


\* Red Outline - companies we did not hold during the period

Source : Bloomberg Data as at 31<sup>st</sup> January 2023

# Top 10 Company Holdings and Sector Exposure

Spheria Emerging Companies Limited		
Ticker	Company Name	% Portfolio
BKL	Blackmores Limited	4.9
IVC	InvoCare Limited	4.7
FLT	Flight Centre Travel	4.7
IRE	IRESS Limited	4.3
NTO	Nitro Software Ltd	3.9
IFL	Insignia Financial	3.7
BRG	Breville Group Ltd	3.4
BGA	Bega Cheese Ltd	3.3
MHJ	Michael Hill Int	3.3
TNE	Technology One	3.3
<b>Top 10</b>		<b>39.4</b>



Source: IRESS, as at 31<sup>st</sup> January 2023

## Ready for takeoff

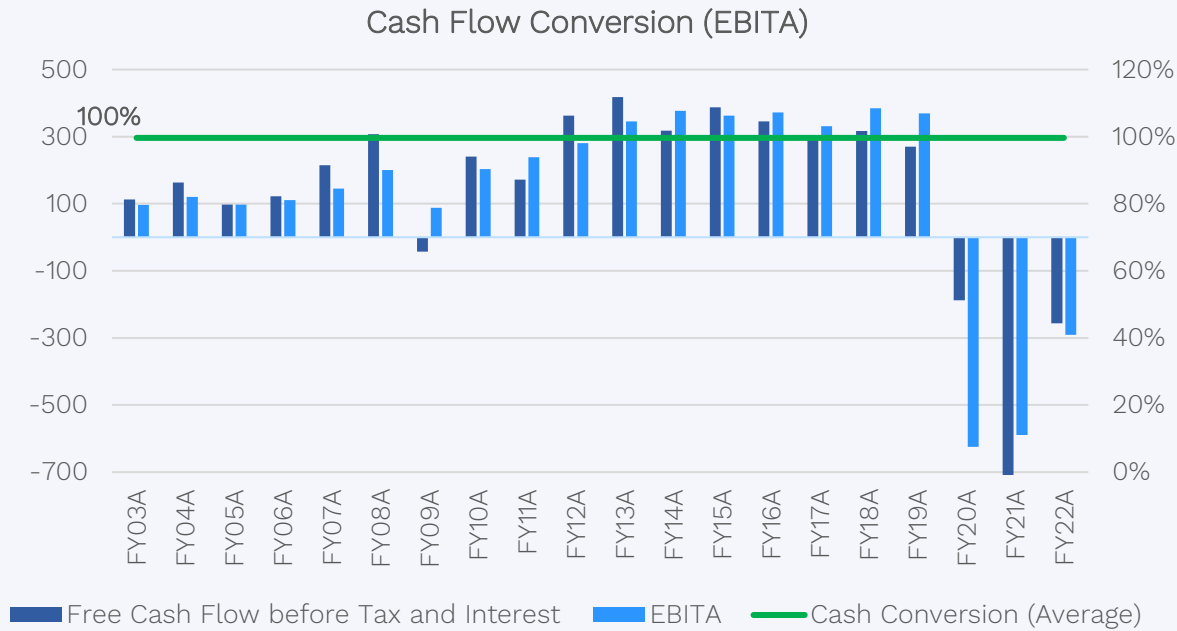
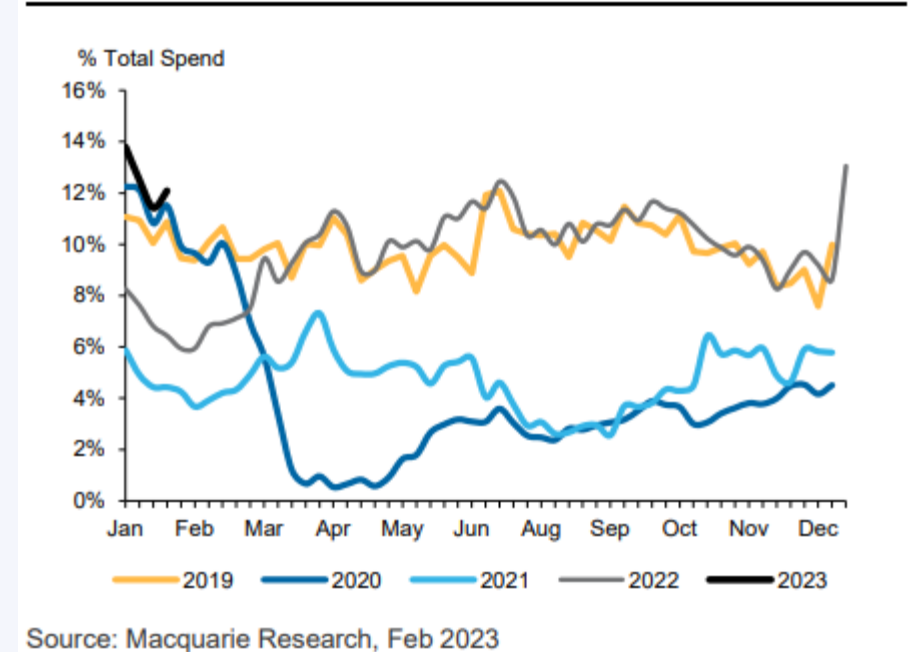
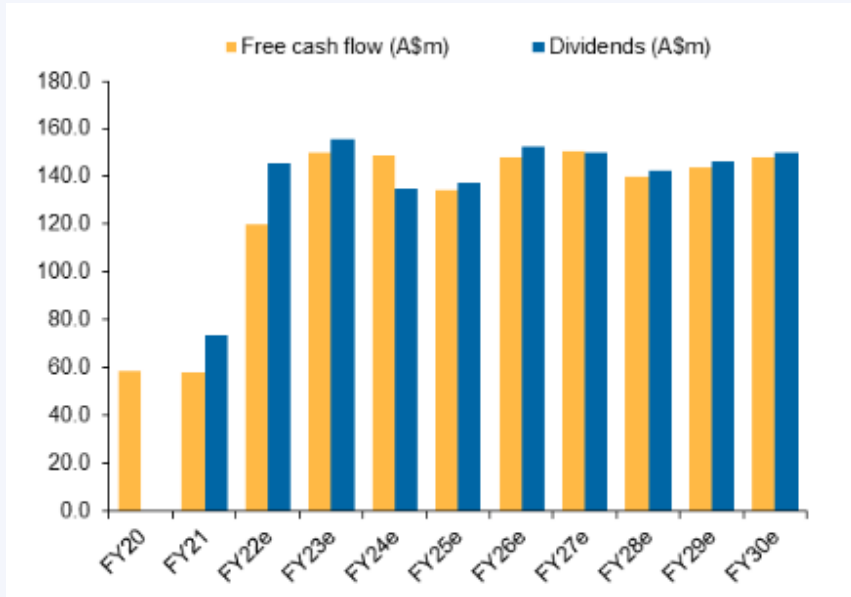


Fig 3 Australia – Travel % total spend (stacked)

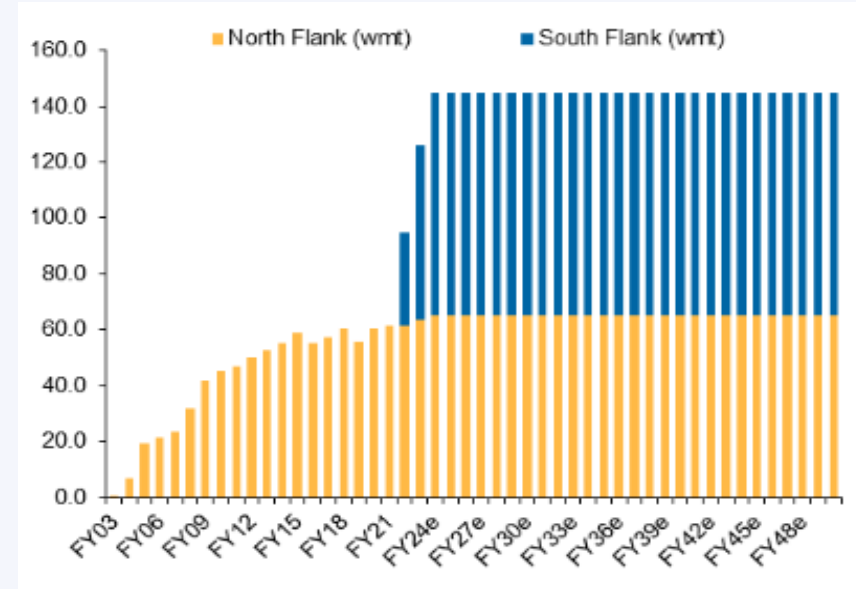


- History of strong cash flow generation interrupted by significant travel restrictions in recent years
- Leisure negligible contributor group profit before Covid downturn, Corporate being the lion share
- Re-engineered its Leisure division halving store network and increasing investment in digital offering
- Corporate TTV now exceeding pre-COVID levels and Leisure ~70%
- FLT expects to return to pre-COVID level earnings with only 70% of pre-COVID TTV

Free Cash Flow Projections



Mining Area C production (wmt)



- DRR owns a 1.2% royalty from Iron Ore production at Mining Area C (est 50yr + mining life) which is 65% owned by BHP.ASX
- Mining Area C is high quality/low impurity Fe and low cost mining operation with long duration
- Leverage to Fe price as royalty is % of sales revenue
- Conservative management team

Source: Morningstar, IRESS, Spheria, Macquarie Estimates (free cashflow, dividends)

# Outlook

- Broad based share price declines provide significant opportunity for “through the cycle” valuation led investors.
- The growth-momentum narrative collapsed providing some pockets of reasonable opportunity.
- Overexuberance in some sectors remains e.g. Lithium miners/explorers
- Balance sheets for majority of our portfolio holdings are in “rude health”, an economic downturn will clean out weaker competitors.
- Operating leverage and cost inflation are key earnings risks but are well and truly priced in given significant de-ratings.
- M&A in “bombed out” technology names is a little concerning but a sign of potential broader activity.



Questions