



SEC Results 1HFY22

Highlights

1HFY22 Profit	Company Performance ¹	Dividends ²	Yield	Yield (including franking)
\$9.6m	+8.1%	5.1c	4.0% ³	5.8% ⁴

- **1HFY22 net profit after tax of \$9.6m**
- **Company performance of +8.1%, Portfolio outperformance of +2.7%**
- **Two quarterly dividends declared during the period totalling 5.1 cents per share (fully franked)²**
- **Trailing dividend yield equal to 4.0%³ (5.8%⁴ including franking)**
- **DRP to commence upon payment of March 2022 quarterly dividend**

We are pleased to announce Spheria Emerging Companies Limited's (**ASX:SEC** or the **Company**) results for the half-year ended 31 December 2021 (**1HFY22**). SEC recorded a profit of \$9.6m for the half-year off the back of strong investment portfolio performance of 8.2% that pleasingly exceeded its S&P/ASX Small Ordinaries Accumulation Index benchmark by 2.7%.

The Company has commenced paying quarterly dividends during the period at a target rate of 1.0% of the post-tax net tangible assets (**NTA**) at the end of each calendar quarter. The target annual dividend yield of 4.0% (5.8% including franking) of post-tax NTA per annum places the Company in the top half of Australian equity LICs from a dividend yield perspective⁵.

The Company has implemented a dividend reinvestment plan (**DRP**) that will be operative from the March 2022 quarterly dividend.

In 1HFY22, the pre-tax NTA increased by \$0.100, from \$2.599 at 30 June 2021 to \$2.699 at 31 December 2021. The primary contributors to the change in the NTA over the period was portfolio performance that added \$0.211 per share while the dividends paid during the period reduced the NTA by \$0.075 per share.

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

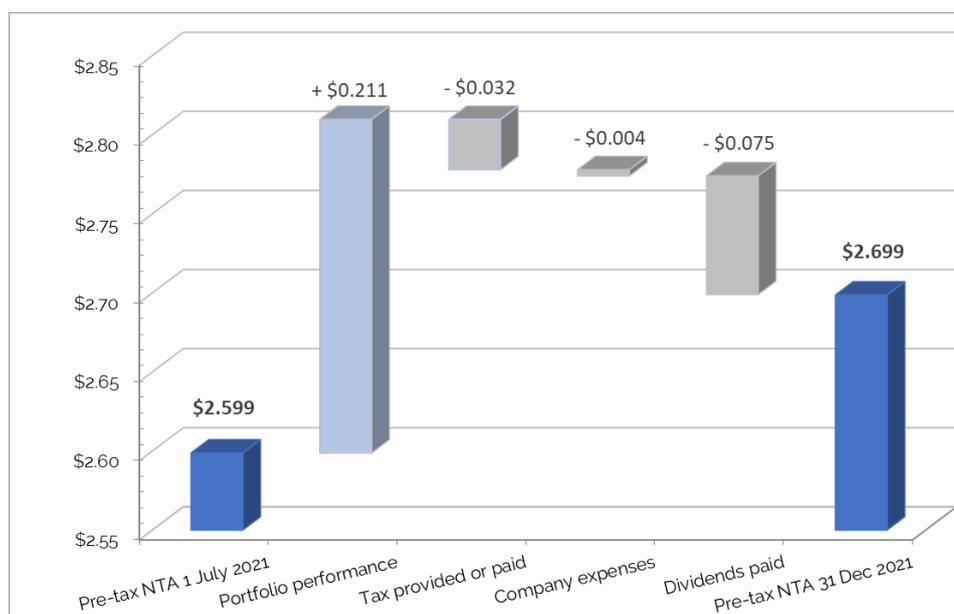
² September 21 quarter dividend of 2.5 cents (paid 31 October 2021) plus December 21 quarter dividend of 2.6 cents (paid 31 January 2021).

³ Trailing dividend yield when combined with FY21 final dividend of 5.0 cents per share, calculated on share price as at 31 December 2021 of \$2.50.

⁴ Trailing dividend yield when combined with FY21 final dividend of 5.0 cents per share, calculated on share price as at 31 December 2021 of \$2.50 using 30% tax rate.

⁵ Bell Potter December 2021 LIC quarterly report

NTA performance breakdown for 1HFY22



Quarterly dividends

A significant benefit of the listed investment company (LIC) structure such as SEC's is the ability to pay regular and consistent fully franked dividends to shareholders. Recognising the attractiveness of regular fully franked dividends, the Company commenced payment of quarterly dividends during 1HFY22, at a rate of 1.0% of the Company's post-tax NTA at the end of each calendar quarter.

The September 2021 quarter dividend, paid on 29 October 2021, was 2.5 cents per share (fully franked), and the December 2021 quarter dividend, paid on 31 January 2022, was 2.6 cents per share (fully franked).

The waterfall chart above indicates dividends paid of 7.5 cents per share during 1HFY22 which includes the final FY21 dividend of 5.0 cents per share together with the September 2021 quarter dividend of 2.5 cents per share.

The two quarterly dividends declared for 1HFY22, totalling 5.1 cents per share, when combined with the final FY21 dividend of 5.0 cents per share paid in September 2021, equates to a trailing dividend yield of 4.0%⁶ or a grossed-up yield including franking of 5.8%⁷. This places SEC in the top half of Australian equity LICs from a dividend yield perspective⁸.

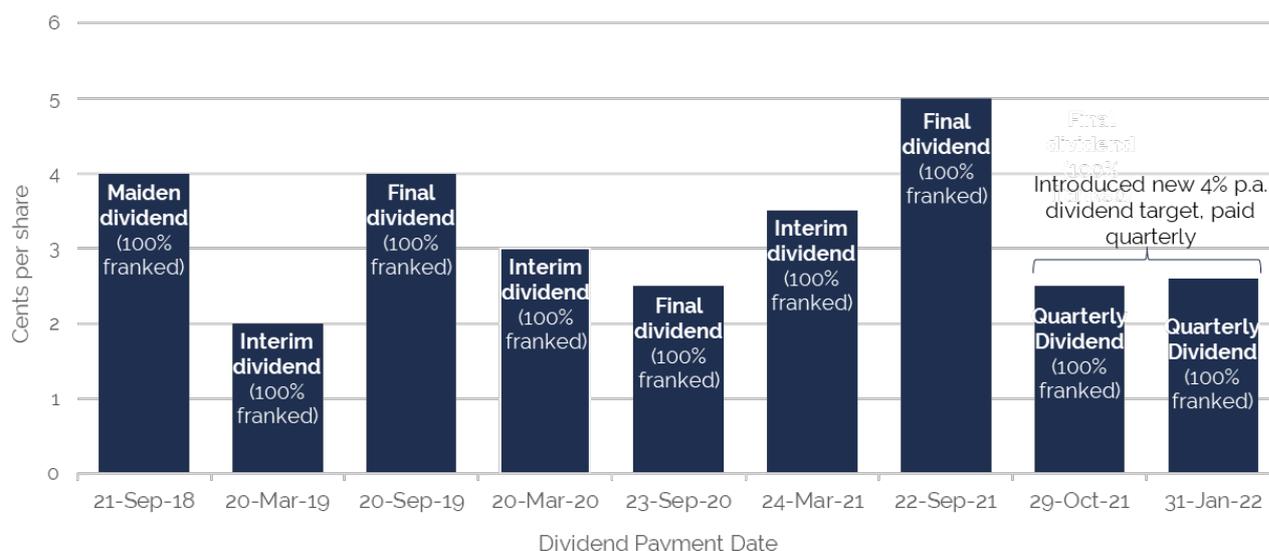
The Company intends to continue the payment of quarterly dividends at a target level equivalent to 4.0% p.a. (5.8% including franking) of the post-tax NTA of the Company, subject to available profits, cash flow and franking credits, and will continue to monitor its dividend policy based on market conditions and prudent business practices.

⁶ Calculated on share price as at 31 December 2021 of \$2.50.

⁷ Calculated on share price as at 31 December 2021 of \$2.50 using 30% tax rate.

⁸ Bell Potter December 2021 LIC quarterly report

SEC Dividend History



Dividend Reinvestment Plan

The Company has put in place a dividend reinvestment plan (**DRP**) which will be operative from the payment of the March 2022 quarterly dividend.

The DRP has been designed so that participants will always receive the lowest reinvestment price possible, without their reinvestment diluting the post-tax NTA of those shareholders who choose not to participate in the DRP.

When the Company's share price is greater than or equal to its post-tax NTA per share, dividends are paid as newly issued shares in the Company. If the Company's share price is above its post-tax NTA per share on the dividend ex-date, participating shareholders will be issued new shares at the greater of the share price (less such discount as the Board may determine for the relevant dividend) or the post-tax NTA value per share of the Company on dividend ex-date.

If the Company's share price is less than its post-tax NTA per share on the ex-date, cash available for distribution as dividends on shares subject to the DRP will be used to acquire the Company's shares on-market in accordance with the terms set out in the DRP. These acquired shares will be distributed to shareholders participating in the DRP.

Shareholders who would like to find out more about the DRP can visit the Company's website: <https://spheria.com.au/funds/spheria-emerging-companies-limited-asx-sec/>.

Shareholders who would like to participate in the DRP can enrol at: <https://investor.automic.com.au> or alternatively please contact the Company's share registry, Automic, for assistance on 1300 902 587 (in Australia) / +61 2 7208 4521 (International).

Discount to NTA

Pleasingly, the discount between the Company's pre-tax NTA per share and its share price has narrowed materially over the last 12 months to stand at 7.4%⁹ on 31 December 2021. When compared to the post-tax NTA at 31 December 2021, the discount is 3.2%¹⁰.

The Board will continue to focus on steps to address the discount, such as the payment of quarterly dividends as noted above.

Investment by the Manager

As at 31 December 2021, the aggregate holding in SEC of the Manager and executives of the Manager (who are not acting in concert with each other) was in excess of 825,000 shares. The Manager is committed to being a long-term investor in the Company.

Shareholder webinar on results and portfolio

The Board invites you to the upcoming shareholder webinar on 2 March 2022 at 11.00am (AEDT). The webinar will provide an update on the Company's half-year financials and investments from the Company's Director and Spheria Asset Management's Portfolio Manager, Matthew Booker.

Shareholders are invited to register at the following link: [SEC 1HFY22 Results Webinar](#)

The Board of Spheria Emerging Companies Limited has authorised this announcement to be released to the ASX.

⁹ Based on pre-tax NTA of \$2.699 and share price of \$2.50 at 31 December 2021.

¹⁰ Based on post-tax NTA of \$2.582 and share price of \$2.50 at 31 December 2021.

Additional shareholder information

Performance as at 31 December 2021

	1HFY22	Since inception p.a.
Company*	+8.1%	+12.1%
Portfolio**	+8.2%	+12.5%
Benchmark***	+5.5%	+9.6%
Portfolio Outperformance	+2.7%	+2.9%

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

** Shows how the portfolio, for which the Manager is responsible, has performed after deducting management fees, costs and taxes and performance fees (if applicable).

*** S&P/ASX Small Ordinaries Accumulation Index.

Manager's commentary

Portfolio performance

The investment portfolio increased 8.2% for the six-month period ending 31 December 2021, outperforming the Benchmark by 2.7%. It appears inflation is beginning to wreak havoc across economies as global demand recovers due to the easing of COVID related restrictions and supply chains struggle to keep up with demand. This is finally leading to central banks re-assessing their monetary policy settings – the result being rising interest rates and bond yields. We believe this is a landmark shift and will present challenges for long duration asset prices and may well deflate rampant market speculation. We think this will play into our hands as we are naturally tilted away from many of those overheated sectors and overhyped company valuations. We have witnessed this before in 2000/01 and in 2007/08 and suspect the script will be repeated with valuation-based managers like ourselves performing well.

It was a strange six months in Australia with State based lockdowns continuing to impact many businesses particularly those that rely on people movement. Despite this the largest contributor to performance was Michael Hill International (MHJ.ASX), a jewellery retailer, that pre-announced a record profit result for the half year. The company benefited from catch-up spend when lockdowns were eased in the last couple months of year and from great execution by a relatively new management team which has significantly reshaped the business over the last two years. Further normalisation in its key operating markets of Australia, Canada and New Zealand will in theory continue to improve profitability and yet the valuation remains undemanding and a balance sheet possessing nearly \$100m of cash provides plenty of firepower for an acquisition and capital management initiatives.

During the period, Class Limited (CL1.ASX) - a long-term holding - was subject to a takeover from HUB24 at a significant premium to its undisturbed share price. We believe the businesses are highly complementary in nature with the datafeeds CL1 have compiled being of strategic importance as the platform market shifts to a non-custodial type of arrangement. We feel that HUB24 is ahead of its competitors from a technical and strategic perspective and will likely continue to gain market share due to its willingness to disrupt its own business model. Whilst this comes at the short-term expense to profitability, we feel it's well placed to win the market and be the scale player in a rapidly evolving platform market.

Seven West Media (SWM.ASX) continued its stellar recovery from the COVID abyss of early 2020. The balance sheet has been repaired and de-risked, and profitability has markedly improved due to better programming and cost improvements. The acquisition of Prime Media (SWM's regional TV affiliate) provides the company national reach and the ability to enhance its streaming service in regional markets. Putting aside the strategic benefits, SWM has paid

an extraordinarily low multiple for Prime Media Group (PRT) inclusive of cost synergies such that payback will be only 2-3 years, in our opinion. Management is executing well and we believe further consolidation in the media market is afoot that will further strengthen and diversify SWM. We continue to believe the company is structurally undervalued and its competitive advantages not well understood.

Market outlook

It is impossible to predict what will happen in markets, however, we maintain the view that the market remains extremely inefficient providing significant opportunity despite the recovery that we have witnessed over the last two years. The easy gains from buying the growth narrative at any price seems to have come to a shuddering halt. We feel a shift to fundamental analysis and valuation is underway and this will benefit the portfolio in the medium to long term.

We thank our shareholders for their interest in and support of the Company and would welcome your questions and participation in our results and conference calls.

About Spheria Asset Management Pty Limited (Manager)

Spheria Asset Management Pty Ltd is a fundamental-based investment management firm with a bottom-up focus, specialising in small- and micro-cap companies, which can provide higher returns in the long term than their larger peers. The Manager is majority owned by its team, which has nearly 100 years of combined investment experience. The Manager's performance culture is underpinned by sensible incentives, a focused offering and the outsourcing of non-investment functions to minority partner Pinnacle Investment Management Limited.

Find out More about the Company and Manager

To find out more information about the Company, please visit the [SEC Website](#)

To find out more information about the Manager, please visit the [Spheria website](#)

Contact Us

If you have any questions for the Company, please reach us on 1300 010 311.

If you have any questions regarding your shareholding, please call Automic, the Company's share registry on 1300 902 587.

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