

# Flinders Emerging Companies Fund

Monthly Update: August 2024

FLINDERS  
Investment Partners



Performance (after all fees and expenses)	1 Month (%)	3 Months (%)	1 Year (%)	3 Years (% pa)	5 Years (% pa)	7 Years (% pa)	Since Inception <sup>^</sup> (%)
Flinders Emerging Companies Fund	-5.11	-3.28	2.66	-6.30	2.98	6.64	7.44
S&P/ASX Small Ords Accum Index	-2.02	-0.01	8.51	-2.89	3.89	5.90	7.84
<b>Net Value Added</b>	<b>-3.09</b>	<b>-3.27</b>	<b>-5.84</b>	<b>-3.40</b>	<b>-0.91</b>	<b>0.74</b>	<b>-0.40</b>

<sup>^</sup> Inception date is 30 September 2015. Past performance is no indicator of future performance. Information relates to the Flinders Emerging Companies Trust Class B. Source: Citigroup

## Investment Objective

Exceed S&P/ASX Small Ordinaries Accumulation Index by 3% pa (after-fees) over rolling 3 year periods

## Investment Time Frame

5 years

## Portfolio Managers

Andrew Mouchacca and Richard Macdougall

## Risk Profile

High

## Distribution Frequency

Half Yearly

## Minimum Investment

\$25,000

## Fund Size

\$101.3m

## APIR Code

ETL0449AU

## M-Funds Availability

Code FEC01

## Responsible Entity

Warakirri Asset Management Ltd

## Research Ratings

Lonsec: Recommended  
Zenith: Recommended

## Platform Availability

AMP North, BT Panorama, FirstWrap, HUB24, IOOF, Macquarie Wrap, Mason Stevens, MLC, Netwealth, Powerwrap, Praemium, uXchange, Xplore

## Further Information

[www.flindersinvest.com.au](http://www.flindersinvest.com.au)



- **An unconvincing recovery**
- **Is the arborist or woodcutter arriving?**
- **Reporting season – bruising but no breaks**

The S&P/ASX Small Ordinaries Accumulation Index closed 2.02% lower in August with industrials and resource stocks roughly in line. IT, REITs, Financials and Telcos led the market while Energy, Healthcare and Materials struggled. Smalls trailed the ASX 100 by 2.7% - a similar outcome to other international markets.

Global markets were generally a little firmer which was a reasonable outcome given the early August panic attack. While the Nasdaq finished in positive territory, it was outshone by the Dow. The recovery only partially extended to the broader market, The Russell 2000 finishing 2.3% lower. European markets edged higher and Asian markets were mixed with Japan recovering to be down only 1.1% but China struggling again, down 3.3%.

The energy complex was very weak. WTI Oil fell 5.6%, both US and European gas prices also fell (sadly not in Australia). Gold keeps grinding higher, finishing up 2.3% and base metals bounced after a couple of crappy months (technical term). I know we mention agriculture occasionally but worth noting that ABARE again upgraded their grain forecasts to an above average production level (unthinkable six months ago), global wheat prices are recovering, and cattle prices are up 40% this year. No wonder RMs are \$700 a pair...

And a comment on the all-important rate outlook. Bond yields continued to tumble and the US economy, while hardly struggling, is a little softer. Inflation is doing as expected and the Fed is about to cut. The key will be by how much – a delicate cut of 25bp or a decent swing of the axe for 50bp? Equity markets may well think 25bp isn't enough. A different story back home. The RBA Governor has hidden all sharp implements and despite the chorus of carping from the Treasurer and friends, they'll remain hidden for some time.

Reporting season in a weak and uncertain market can be problematic for smaller companies and we put up our hands and say it was for us this year. A couple of disappointing results making a mess of performance – see details next page.

In aggregate, results were in-line to slightly better than expected for FY 2024. Revenues were a fraction behind expectation but margins held up with good cost control and where possible, higher pricing. Higher depreciation and amortisation charges were again a feature, with the result being a net profit figure often disappointing despite solid operating earnings. Cash generation was a highlight with good conversion and working capital control. Balance sheets remain reasonably strong and with that, investment intentions remain elevated – both capital expenditure and M&A.

The rub came with the outlook statements. Earnings forecasts for FY 2025 have been reduced. Management commentary was cautious, and the first two months of the year has shown little enthusiasm from the consumer. Infrastructure, mining, Government and private services all continue to see solid spending levels. It remains clear that the corporate balance sheet is in a considerably stronger position than that of the household.

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## Performance Review

The Fund returned **-5.11%** in July, **3.09%** behind the benchmark return of **2.02%**.

### Key Contributors:

A couple of poor full year profit results hurt performance in August. While the majority of the portfolio produced results that were better or in line with market expectations, anything that disappointed (either for the year past or for guidance into 2025) faced serious share price pressure.

Gold miner, **Ramelius Resources (+14.4%)** reported just what the market liked to see. A solid production report followed up with an admirable profit result driven also by cost control, leading to further upgrades to growth in 2025. The company is also in cash position (not unusual in this sector at the moment), giving it both growth and capital management options. The continued strong gold price is obviously helping but the management team are running the assets very well.

Mining and infrastructure contractor, **NRW Holdings (+6.6%)** also released a strong profit result. Driven by improving margins in the mining services and construction businesses, costs growth was more modest than the past few years with better labour availability and retention. Cashflow exceeded expectation and the outlook for all its businesses this financial year looks promising. Utilities and telecommunications service provider, **Service Stream (+4.6)** has continued to improve its operations over the past two years. Increasing business with the major telecommunications providers, improving margins in the utilities division and managing cashflow well have all led to a re-rating and the result released in August provided evidence of the improvements. The company met guidance, is on track for solid growth this year and has no debt.

### Key Detractors:

Integrated building services provider, **John Lyng Group (-33.4%)** produced a result that was light on revenue and although operating profit was in line with expectations, it came from acquired businesses and residual earnings from 2023 catastrophe contracts. More importantly, the company hosed down expectations for the 2025 financial year. This was largely due to lower catastrophe work which by nature is unpredictable, but it still rattled the market despite core (business as usual) work growing and a better contribution from the US. The company has a strong management team, is well funded and is expanding. It has been priced as a growth stock and in order to restore that premium rating it will have to show the market that it still has the growth opportunities and management can execute on them.

The share price drop in bus, ferry and tourism operator, **Kelsian Group (-28.4%)** was almost as savage but for slightly different reasons. The company (like Johns Lyng) met operating earnings (EBITDA) expectations but in a release to the ASX two days before the profit announcement, pointed to significantly higher capital expenditure and depreciation charges likely in FY 2025 – but no clarification on earnings. This rattled the market and sent the stock down 24% on the day. When the profit result was released, there were few surprises, but the damage had been done. A 12% lower net profit in 2025 than expected accounted for some of the fall but the communication issues arguably led to more. As an aside, we still hold both stocks. It was painful but both have a bright future in key industries with proven management teams.

Mining equipment supplier, **Austin Engineering (-18.2%)** gave back some of its recent gains after a result that led to modest downgrades for 2025 but we feel that the strength of their forward order book for equipment and likely growth in customer demand keeps in good stead to at least match forecasts. Trustee company, **EQT Holdings (-13.8%)** fell following last month's gains after a result that saw cost growth outstrip its revenue growth. Fortunately, much of the cost growth is of a short-term nature and we expect reductions over FY 2025 but the revenue growth to continue with new client wins.

Also worth mentioning that the best performing sector over the month were REITs. Not having exposure (low growth, low return on capital) was costly in a month where falling bond yields pushed their prices higher.

Performance Attribution <sup>^</sup>		Key Portfolio Positions <sup>^</sup>
Top 5 Contributors	Top 5 Detractors	Top 5 Active Holdings
Aussie Broadband	Austin Engineering	AUB Group
NRW Holdings	EQT Holdings	Hansen Technologies
Ramelius Resources	Johns Lyng Group	MAAS Group
Service Stream	Kelsian Group	NRW Holdings
Tabcorp Holdings *	Neuren Pharmaceuticals	Service Stream

<sup>^</sup> Alphabetical order. \* Denotes stock not held. Attribution is for the 1 month ending 31<sup>st</sup> August 2024. Top 5 positions are effective 31<sup>st</sup> August 2024.

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