GANES

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August Monthly Report

MACRO CAPITAL LIMITED
ABN 14 145 321 928 | AFSL: 392401

GANES INVESTMENT MANAGEMENT PTY LTD
ABN 86 113 032 741 | AFSL 287598

The Fund outperformed the market by more than 5% in August with companies in the portfolio generally meeting or beating results season expectations, and assisted by lacklustre results from the broader universe of listed companies. The one year return for the Fund is 17.7%, and reflects a thoughtful repositioning of the portfolio over the last twelve months to a fully invested position in a portfolio with good future growth prospects.

Performance 31-Aug-16	Ganes	All Ord Index
1 Month	3.83%	-1.33%
3 Month	4.08%	2.49%
6 Month	16.03%	14.25%
1 Year	17.67%	10.72%
2 Year (p.a.)	7.74%	3.64%
3 Year (p.a.)	8.04%	7.12%
5 Year (p.a.)	11.04%	9.52%
10 Year (p.a.)	7.35%	5.26%
Since Inception (p.a.)*	7.82%	6.19%
NAV Unit Price ($)	1.5596	
Fund Assets ($ million)	28.84	

* Inception date of Fund 18/11/2005

Financials led the market lower, driven by negative earnings per share growth compared to FY15, and negative analyst revisions to FY17 earnings forecasts. It was a similar story for industrials, with earnings per share (eps) down on FY15, with analysts over the last year continually trimming expectations which a year ago stood at circa 10% eps growth. The market is expecting high single digit eps growth in each of the next two years driven by resources and industrials (ex banks).

Amongst the larger (3%+ weight) holdings in the Fund, good results were reported by Smartgroup, Cochlear, Nick Scali, Reece and PWR Holdings; satisfactory results from ARB Corp, Beacon Lighting, Adelaide Brighton and Trade Me Group, and not so good results from Flight Centre and Austbrokers.

The following five good results highlight the growth that can be selectively found even in a low growth environment.

Smartgroup continued to deliver with a strong half-year result that had underwritten the strong share price performance in recent months. Revenue was up 36% to $61m and NPAT up 45% on prior year to $18m. The company now has 185,000 packages under administration and following the acquisition of Selectus, this will move to more than 210,000, almost double that of June 2015. The business remains incredibly profitable with an EBIT margin of 41% and this could improve further as economies of scale from recent acquisitions are bedded down.

Cochlear reported revenue up 23% to $1.2bn and profits up 30% to $189m, with the company predicting further double-digit growth for 2017. Implant growth was 12% with the company selling over 30,000 units for the year, and service revenue increased 30%, which is predicted to be a growth engine for the company in coming years with 450,000 life time clients already.

Nick Scali reported sales up 30% to $203m with 11.1% same store growth and much of the growth from 7 new stores opened in H2-FY15. EBIT was up 56% to $37.1m, with margin gains due to cost efficiencies particularly in property. The company maintains a strong balance sheet with a net cash position. Management expect 5-6 new Nick Scali stores in FY17 and a network target of 75 stores versus 42 currently, so still some good roll-out growth ahead.

At **Reece**, revenue was up 9.2% to $2.28b aided by strong building activity and pre-tax profit up 23.2% to $280.7m. Six new Reece branches and two capital city distribution centres were opened during the year. The 2014 purchases of Actrol and Metalflex have been fully integrated in the business and appear to provide a good source of future growth for Reece. All major expense lines reduced as a percentage of revenue, driving profit margins higher. The company says it expects construction activity in 2017 to be down on 2016 but this is an exceptionally well managed business and we are happy owners of this business.

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PWR Holdings is a relatively recent addition to the portfolio. Based in south east Queensland, it designs and manufactures automotive cooling systems, with motor sport being a key market for its products. Revenue of $47.4m was 45.6% ahead of FY15, despite a negative foreign exchange impact of $1.1m. The company generates the bulk of its revenue from outside Australia, and these markets represent a large growth opportunity for the business. Net profit of $10.8m was 27% ahead of FY15, with margins impacted by the inclusion of the lower margin C&R business acquired in the prior financial year. The balance sheet is clean and very strong with just $1m of debt and $8.8m in cash, and the business produces strong free cash flows despite the strong growth being generated. We significantly increased our position in PWR following the result.

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