6 August 2021

ShawandPartners
Morrissey Group

MARKET UPDATE

Weekly Update

Six and out? Bloody hope so.

The market continued on its steady rise, up a full 2% this week. The big miners suffered a little, banks and healthcare were strong, but the big move came from a company that didn't even exist seven years ago.

Meet Jack

Introducing Mr Jack Dorsey; multi-billionaire tie dye t-shirt wearing capitalist hippy and CEO of Square and Twitter – and soon to be Afterpay.

The massive news this week was the Buy Now Pay Later (BNPL) market hero Afterpay takeover bid launched by Square. This acquisition is big in so many ways.

Firstly, who is Square. A US based financial payment business worth US$3.2bn 10 years ago, who listed on the New York Stock Exchange (NYSE) in 2015. They're currently trading with a market capitalisation of US$120bn.

Square makes mobile phone-based payment systems, including Cash App, which allows users to send and receive money for free through a mobile application, and Square Point-of-Sale, a free application that lets merchants process payments via smartphone.

You'll see them being used by small footpath stalls, coffee shops, etc. They're really cool products.

Square wants Afterpay in their stable of payment services, or within their 'ecosystem'.

BNPL is growing in popularity daily as a deferred payment choice by consumers and is fast replacing the use of credit cards for many. Square clearly wants to tap into that development. Consumers will have the option of using the Afterpay payment deferral service at the checkout and will strengthen Square's offering to vendors.

The deal is excellent for Afterpay as the level of competition was growing, particularly in the US, and from giants like PayPal and Apple.

As mentioned earlier, the Square CEO also co-founded Twitter, left, and returned as CEO again. As such he is currently running two rapidly growing enormous tech businesses; insane.

And the metrics.

The offer of 0.375 Square shares for each APT share is at:	
42 times APT 2021 revenue	800 times APT EV/EBITDA.
23 times APT Enterprise Value to forward sales or EV/forward sales, NB: EV is Market capitalisation plus debt	120 times APT Price to earnings (PE) ratio; that's 120 times projected earnings, not historical.

These numbers are stratospheric, and the bid has sent a wave of excitement through the market as traders look for the next deal. Attention in competitors ZIP money, Openpay and Sezzle has seen their prices jump.

It looks as though my expectation of heightened interest in BNPL companies being an overpriced fad is a little off the mark.

Also, this is the largest takeover in Australian corporate history. A company that was only listed in 2015 buying a company set up by two mates SEVEN YEARS AGO for $39bn. In fact, as it's a scrip bid, and the share price of Square rose 10% the night of the bid, the value of APT rises too.

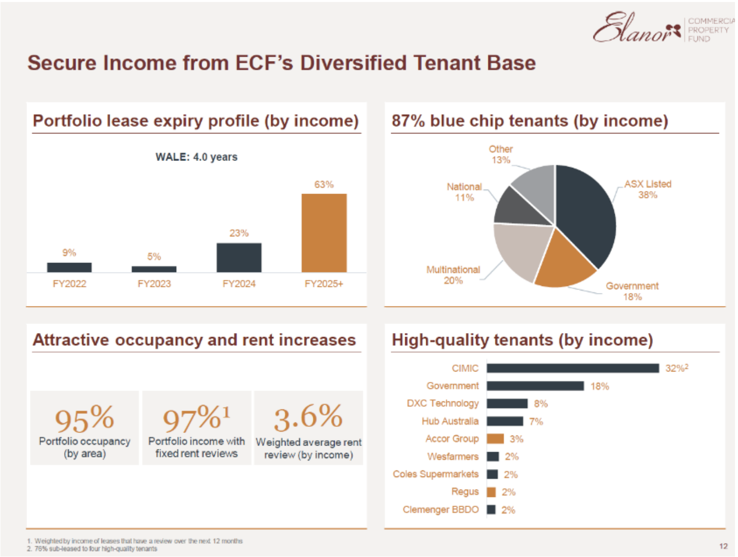
Elanor Commercial Property Fund (ECF)

On Tuesday this week ECF announced the acquisition of 50 Cavill Avenue, Surfers Paradise for $113.5m.

It was bought on a 6.8% capitalisation rate with a weighted average lease expiry (WALE) of 3.1 years and 97% occupancy. Management believe they have bought the building at below replacement cost.

An oversubscribed placement and institutional offer raised $64.3m and a one for five fully underwritten retail entitlement offer will raise a further $20.4m to fund the deal.

Elanor Investors Group (ENN) who manage ECF chose not to take up their entitlement, rather, they've committed to sub-underwrite up to $10 million of the retail component of the Entitlement Offer. Therefore, ENN will hold a co-investment of between 11% and 14% post Equity Raise, depending on the take up of the Entitlement Offer, providing strong alignment with investors.



The interest in this deal has been pleasing and ENN are proving themselves as good operators, which will increase interest in ENN, ECF and ERF over time.

Post this deal ECF will pay a dividend of 9.4 cents for FY 22 (8.5% yield, paid quarterly), hold a portfolio of $500m in property and the NTA will be $1.15.

GDI Property Group (GDI)

The seller of the property mentioned above was none other than our very own GDI.

GDI bought 50 Cavill Avenue in February 2016 for $46.1m. It was only 54% occupied, was in desperate need of refurbishment and lacked a NABER's Energy rating. They have now of course sold it for $113.5m ($109m net) to ECF.

GDI are a slightly unique animal in the property space. They look for underlet buildings with an array of acceptable problems in geographic regions where they expect a lack of supply and strong demand, ultimately resulting in significant capital value growth.

Utilising the skills within the group they then refurbish and re-lease, all the while benefiting from the rising property value.

We've been investing in GDI since they first listed. Their eye for unrecognised value is impressive, allowing this kind of transaction to occur on many occasions.

This doesn't mean Cavill Avenue was a bad deal for ECF; it was a great deal for a property group who wants a quality property with solid tenants to pay a reliable above average dividend.

GDI are currently focussing on their major properties in WA; Westralia Square and Mill Place.

2022 will be a year of consolidation for GDI, 2023 will be significant. In the meantime, they're paying a distribution yield of 6.8%, buying back their own stock and boast an NTA of $1.27. The share price is $1.14

Santos (STO) and Oil Search (OSH)

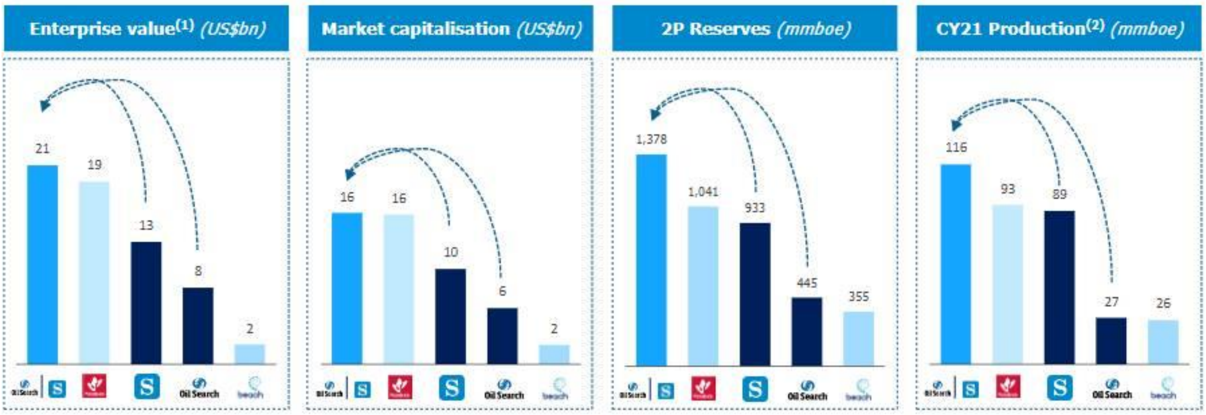
Santos and Oil Search have reached agreement on an improved, revised merger ratio. Oil Search shareholders will receive 0.6275 new Santos shares for each Oil Search share (from 0.589). This means Oil Search shareholders would own approximately 38.5% of the merged group (from 36.9%). Oil Search's board has confirmed that their intention is to recommend the revised merger proposal, which is the equivalent of a 6% premium ($4.05ps) to OSH's last trading price ($3.81ps), or the equivalent of a 17% premium to the Oil Search closing price on the day of the first proposal (19 July).

This is a rare opportunity to combine two entities where the whole is potentially greater than the sum of the parts.

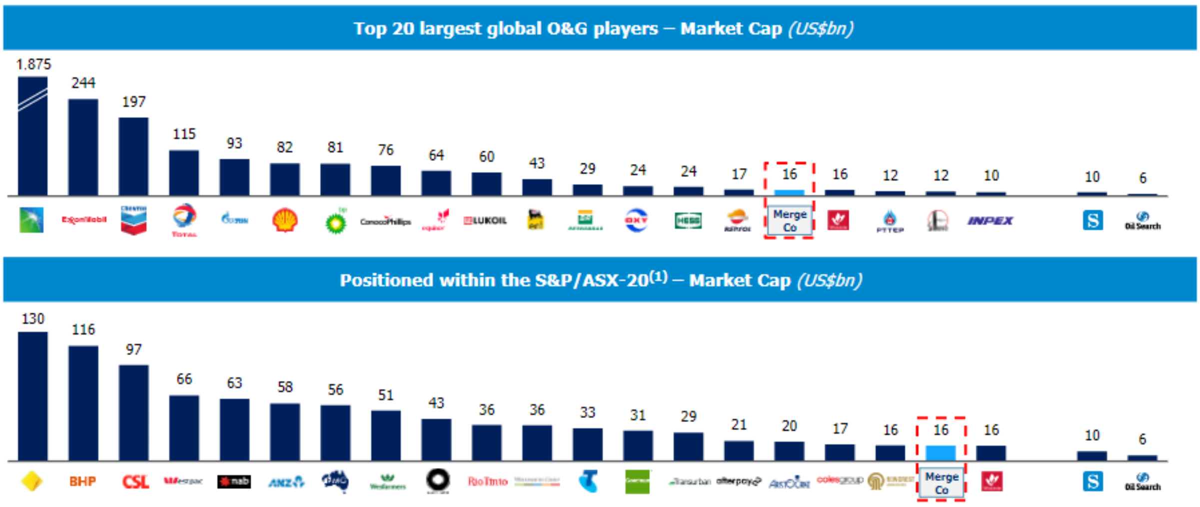
- The fundamental issue for Santos has always been quality of its underlying resource - Santos is short gas and quality development opportunities to backfill its infrastructure base.
- Oil Search has always been short of quality management – management that is able to execute on resource development opportunities.

At a high level, consolidation makes sense for the sector. The industry's regulatory environment is becoming much more complex and expensive to navigate (i.e. carbon price, restoration obligations). A larger, integrated entity - with increased cross functional support to the core oil and gas business - will be better placed in this brave new (lower carbon) world.

The merged entity (MergeCo) would become the largest ASX-listed O&G company



MergeCo would benchmark against global O&G large-caps and the S&P/ASX-20



CV Check (CV1)

CV1 announced the appointment of their new CEO, Mr Michael Ivanchenko. An internationally experienced executive, Mr Ivanchenko is an extremely well-regarded appointment with a history of generating rapid profit growth in B2B and B2C tech sectors.

He recently served as Executive Director of Product with Foxtel Group, 'where he was responsible for the evolution of the Foxtel product from a legacy broadcast platform to an internet connected service with a modern user experience.'

I feel the market has been awaiting this appointment and has been one of the reasons for CV1 not responding more positively in the market.

Finally, I was sent this tweet last night. It is a take on the ludicrous valuations being applied to certain tech businesses at the moment. Is the tech bubble about to burst 21 years after the first collapse in March 2000?

Guide to valuing your company in 2021:

I have an amazing idea:	$1 billion
Page with signup form:	$200 million
Product but no users:	$100 million
Product with users:	$50 million
Product with revenue:	$25 million
Product with profit:	NA

Seems about right.

Have a good weekend,

Ben and the team

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