3 September 2021

MARKET UPDATE

Weekly Update

Doughnut Dan

Good evening, well despite being locked up for the best part of the last two years, and soon to be subjected to the longest lockdown in the world, our rate of infections are escalating at a faster rate than that of our Northern counterpart where lockdowns were put off for as long as possible and weren't as severe nor broadly applied. And closing playgrounds, I know they've backflipped on this but honestly. Hell we went into lockdown 24 hours after the Premier smugly bragged about his doughnut day.

What right do these people who have so little real-world business experience choose who gets to go to work and earn a quid and who doesn't. Not everyone works for the Government or is a member of the CFMEU. How dare they damage our children's well-being with impunity.

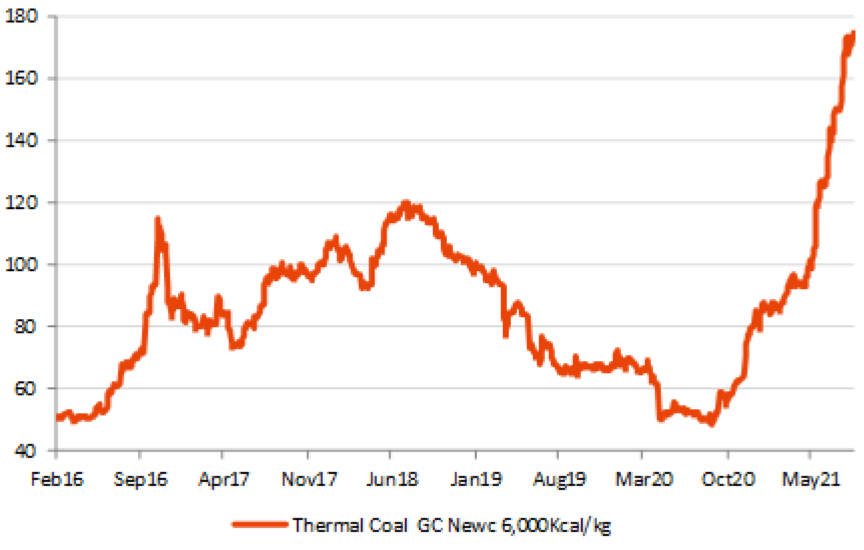
We've got at least another 10 weeks of this rubbish yet NSW is opening up and we're not. Nope, nothing to see here. Why are the press so damned complicit and compliant? No one gets called out.

Breathe out.

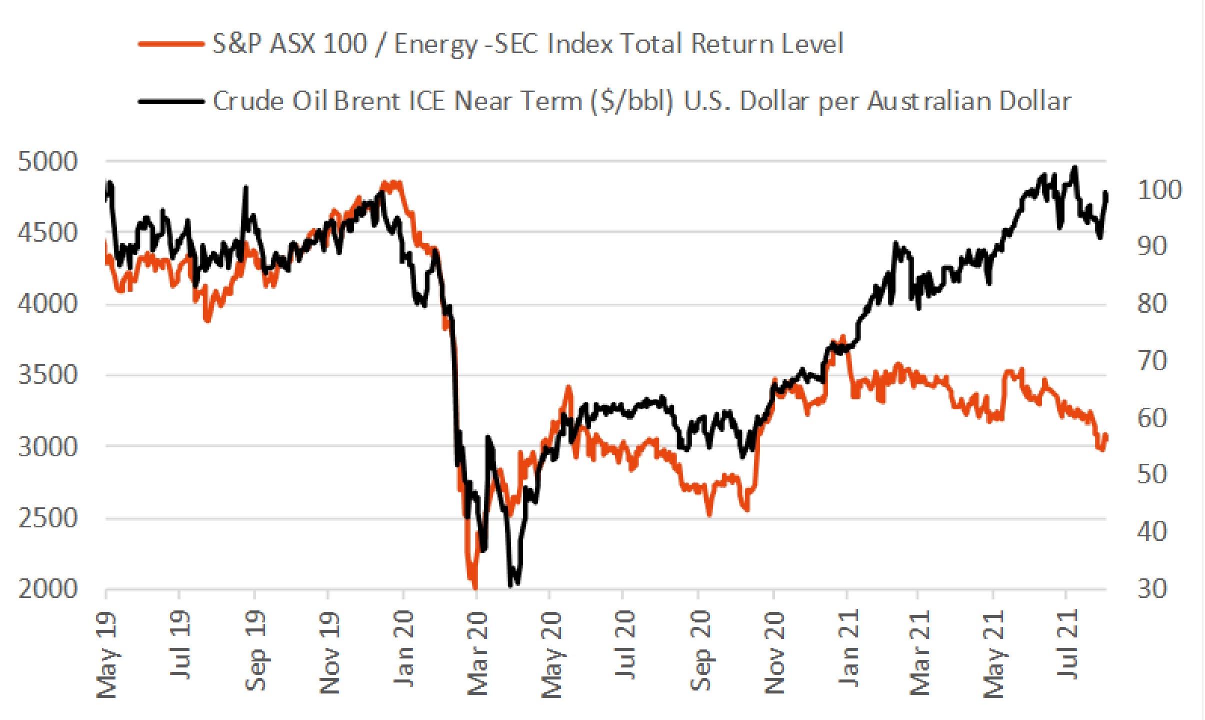
The markets had another interesting week and the last for reporting EOFY results. Energy prices remain interesting as does the ESG (Environmental, Social, Governance) space. Starting with ESG, as reported in the AFR yesterday, 'ethical' investment funds' grew 30% in 2020 to $1.28bn, or put another way represents 40% of all professionally managed money. This is both brilliant and concerning. Brilliant because of the increasing desire for investors to support the many previously unsupported entrepreneurs devising and developing products to serve humankind well into the future. Concerning because there simply are not that many worthwhile ESG businesses worth pursuing suggesting the potential for 'bubble' pricing in these funds.

There are still ESG opportunities well worth pursuing (CG1 to name but one), but the well-trodden path to many of these 'overinvested 'spaced is creating danger for unsophisticated, well-meaning investors.

As far as the 'dirty' energy space is concerned, thermal coal continues to surge propelling Whitehaven to another near-term record, closing at $2.84.



But the oil stocks simply haven't caught up to the oil price.



In an effort to back away from what has made him a multi billionaire, Twiggy Forrest is trying to convey the message that Fortescue is not an iron ore company, rather it is a Leadership and Management' business. It's kind of like how the prettiest girl says looks aren't important.

He's obviously hoping to use the spectacular profits generated that aren't paid out as dividends to invest into other, greener areas; he'll regret paying out so much of the company's earnings as a dividend rather than re-investing it. Actually, he was the largest beneficiary, so maybe he won't.

In other news the US tech giant Apple continues on its merry path to global domination, ticking over US$2.5 trillion in value. NB: Australia's GDP is US$1.4 trillion.

Locally our market rose 35 points to close the week at 7523, as a number of large index contributors went ex-dividend; BHP, Woolworths and CSL to name a few.

Starpharma Holdings Ltd (SPL)

On Wednesday this week I had an interesting chat with Dr Jackie Fairley, CEO of SPL.

For many of you, SPL may not be a business you know much about, for others, we held and made decent money in this biotechnology company some years ago.

In short, SPL holds a portfolio of molecules called dendrimers that can be used and modified for different medical outcomes. SPL currently has a number of dendrimer-based products that are undergoing trials such as DEP Docetaxel for localised cancer treatment and others that are commercial like Vivagel for the treatment of and prevention of bacterial vaginosis.

Viraleze is another product they have which can be used as a preventative for viruses and none other than Covid-19.

Viraleze is a nasal spray which kills the virus in the sinuses and provides approximately 6 hours of protection for the user and of course for whomever the user interacts with if the user already has Covid-19.

Given the high transmissibility of the delta variant, Viraleze is likely to be a preventative against Covid-19 and used by people with a high likelihood of infection, exposure to people who may be infected and people who are concerned about the well being of those they interact with; aged care, hospitals, etc.

Data has revealed that even vaccinated people are still getting infected and shed just as much virus as those who have not been vaccinated.

Although Dr Fairley felt it would take some time for the Australian Therapeutic Goods Administration (TGA) to approve Viraleze, past experience indicates they will be slow.

FDA approval (USA) has not been sought due to the costs associated and binary nature of the outcome.

Viraleze has achieved CE Mark approval, is being manufactured in Belgium. Several hundred thousand units of Viraleze have already been sold across Europe, India and Asia.

It costs around $16 euro, £15 UK, and offers very fat profit margins. There are approximately 40 sprays per bottle. One spray is used before interaction. The current shelf life is 18 to 24 months.

Viraleze is well tolerated with no absorption into the blood stream.

Finally, Viraleze is effective on all viruses; it was effective on all previous Covid-19 strains. It can also be used as protection against colds, flu and future pandemics.

Could be an interesting one to watch.

Click on link to study here and link to recent shareholder update here

Coventry Group (CYG)

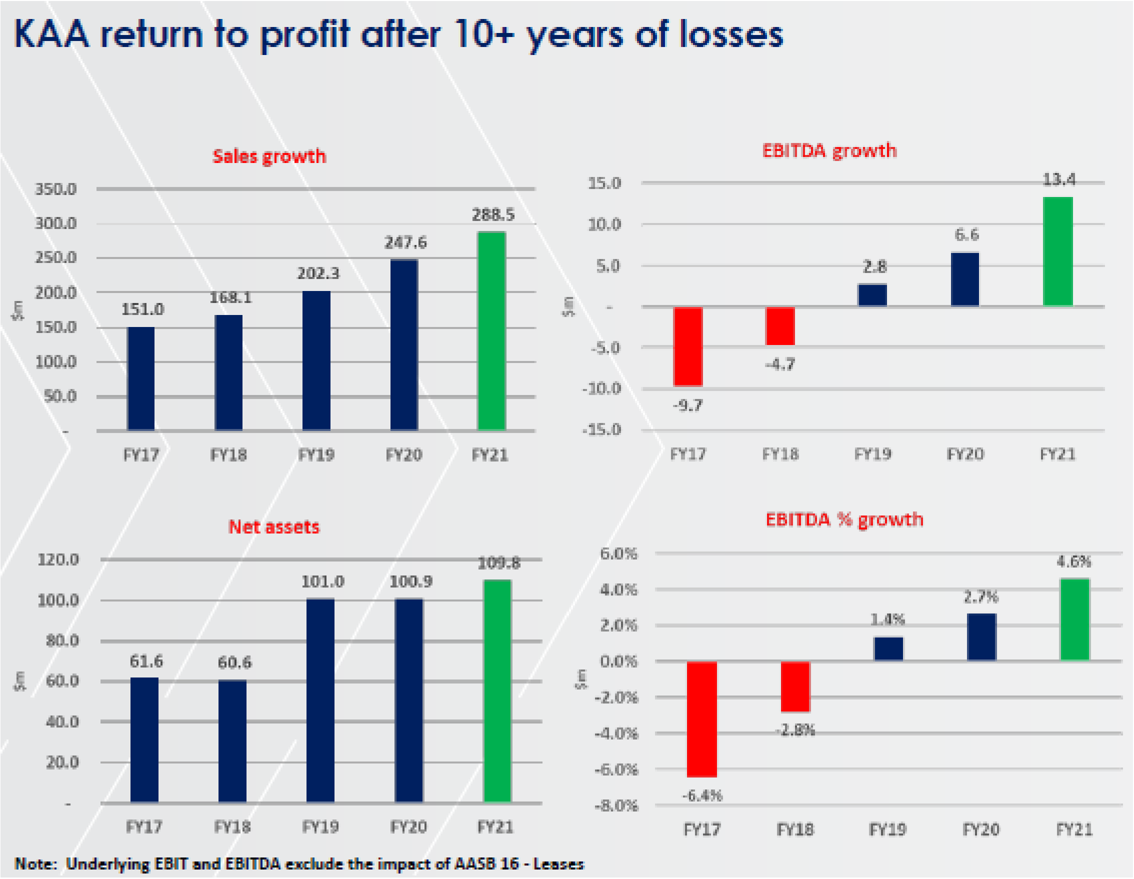
I met with the CEO and CFO on Monday this week to discuss the release of their full year results.

The key takeout points are as follows:

Good performances across all divisions.

The troubled Australian Distribution business (KAA) achieved a small profit for the first time in 10 years. This division will continue to improve.

All other divisions continued to achieve record numbers



All areas of operation- construction, agriculture, infrastructure, mining, continue to show demand.

Global supply chains; The biggest issue is access to materials and supply of other products to site, i.e., if timber not supplied, the fasteners provided by CYG can't be used. There is currently a 30% shortfall of materials, so even though demand has risen for CYG products, the lack of materials may mean shortfalls in the future. For example, in Tasmania they are short on roofing screws due to $2m of back orders on steel in the state. As such CYG has increased inventories to minimise the risk of running out.

CYG continues to take market share from its competitors.

Acquisitions. All recent acquisitions have provided EBITDA margins of 15-30% plus. Given management discipline they will not make the well-worn mistake of overpaying for the sake of growth, paying no more than 2 to 6 times EBITDA, with a targeted 100% return on investment within 3 years.

As a business, CYG is targeting an EBITDA margin of 7.5%, 2021 was 4.6%. These acquisitions along with organic improvements will help improve margins.

There are plenty of small acquisition opportunities, some larger ones at 10% plus margins but generally not for sale. They intend to make 3-5 acquisitions pa going forward.

Although management did not provide a future dividend policy, they did announce a $0.03 final dividend for FY2021.

Management again chose not to provide a profit guidance for the coming year, citing difficulties in forecasting due to the lockdowns, but at present the NZ and NSW shutdowns are having an impact. In Victoria and the rest of the country there has been no impact. Notwithstanding, KAA will have a record month.

In summary, when the current CEO and CFO took over three years ago, they were targeting a business that produced $500m in revenue and a 7.5% EBITDA margin. Depending upon acquisitions, CYG could accelerate well past that.

The biggest issue that I can see for CYG is that they are operating on an Oracle ERP (Enterprise Resource Planning management system, ie the IT they use) and it is providing sub-par service. This must be upgraded at some point. I've never seen this process be done smoothly, quickly or cheaply. It will cost millions, and will be very disruptive, but is likely to be at least 3 years away.

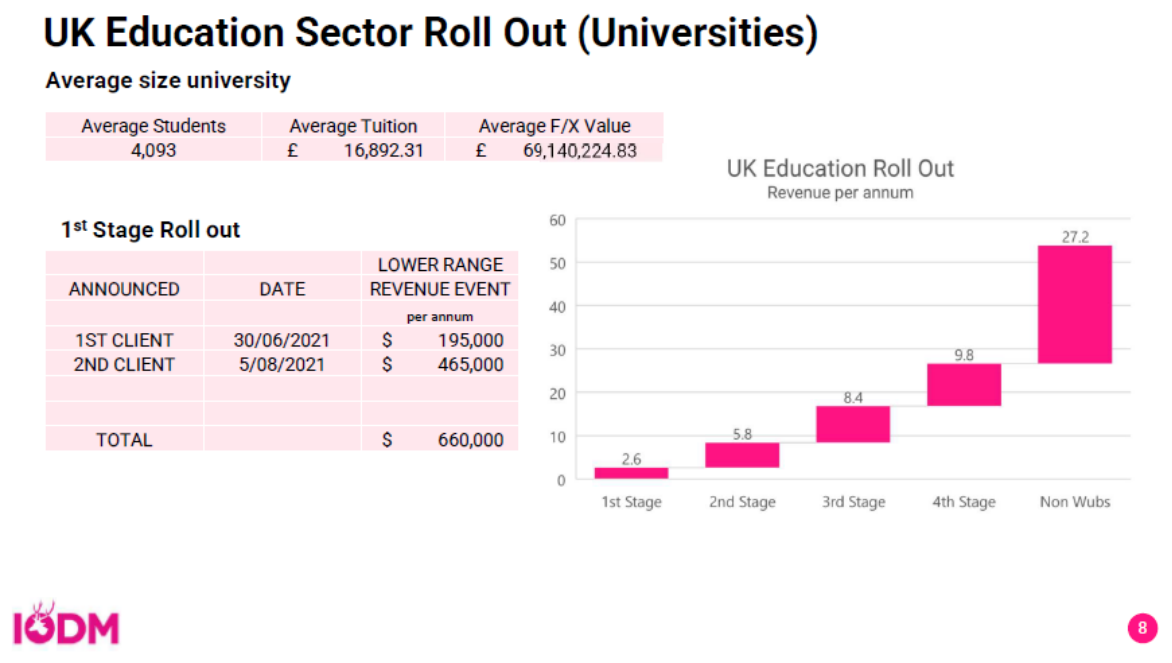
In the meantime, business as usual.

CYG is in excellent shape and growing fast.

Assuming they can write approximately $350m in revenue this year (excluding acquisitions) on a 5.5% margin, they will produce an EBITDA of around $19m. If this can be achieved, CYG is trading on an EBITDA multiple of 7 times.

IODM Ltd (IOD)

After releasing their full year results which were a bit of a yawn, IOD went on a tear rising 21% for the week, and 175% since the beginning of June last year. What I think piqued the market's interest was the company's staged growth forecasts, which if past performance is anything to go by, will be exceeded comfortably.



How good was yesterday's weather…

Enjoy the weekend,

Ben and the team

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