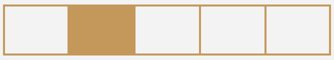
Ralton Dividend Builder

Portfolio Report | August 2021

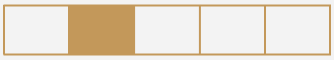
Key facts

Income versus growth target



Income Growth

Market cap bias



Large Small

Investment strategy

A portfolio of ASX-listed equities designed to provide attractive tax-effective income

Investment objective

Outperform index by over 3% p.a.

Benchmark index

S&P/ASX 300 Accumulation Index

Portfolio Manager

Will Riggall

Inception date

February 2008

Management fee

0.75% p.a. (may vary across platforms)

Number of stocks

25-35

External ratings

Zenith “Approved”

Key platforms

HUB24, NetWealth, Praemium, OneVue, Powerwrap, Linear, Xplore, Wealth02

Stock spotlight | Downer (DOW) +25.5%

At Ralton we look for enduring “thematics” that a company may exploit to deliver sustainable growth over the medium term. On the 3rd of September I was privileged to present on to Netwealth clients on companies set to benefit from the greening of global economies. Downer was one of five opportunities I spoke to represented in our portfolios. The energy transition will result in a significant spend on power infrastructure, which delivers Downer an expanded market opportunity as itself transitions to a pure play urban services business, exiting the more capital intensive and volatile earnings. The new Downer will have more a more stable earnings profile, delivering higher returns to shareholders. Trading at 16.5 PE, with a strong yield and enviable balance sheet, we see further as it capitalises on this exciting opportunity.

Performance (%, returns greater than one year are per annum p.a.)

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	**2.08%**	**4.59%**	**28.57%**	**5.81%**	**8.64%**	**11.28%**	**7.86%**
Income	*0.96%*	*1.44%*	*4.89%*	*4.72%*	*4.70%*	*4.81%*	*4.95%*
Growth	*1.11%*	*3.15%*	*23.67%*	*1.09%*	*3.94%*	*6.47%*	*2.90%*
Index	**2.61%**	**6.08%**	**28.58%**	**10.13%**	**11.05%**	**10.26%**	**6.58%**

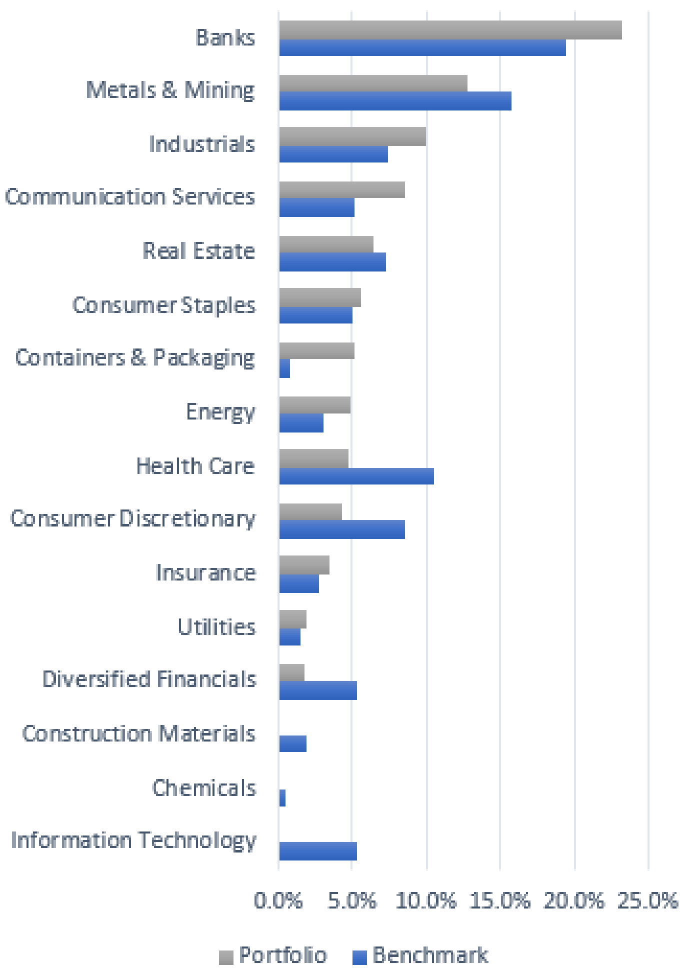
Portfolio Performance

The Ralton Dividend Builder portfolio returned +2.08% for the month, taking 1 year performance to 28.6%, in line with the strong market. Pleasingly we have delivered above our stated income target, returning 4.89% vs the markets 3.00% yield over the last 12 months.

Contributors	Comment
DOW (+25.5%)	Downer delivered a strong result, ahead of market expectations, lifting NPAT growth 20%+ from the prior year, with cash flow strong again. Through asset sales and strong execution, DOW moves closer to a lower capital intensive,
AMC (+11.05%)	There was a lot to like about Amcor’s FY21 result with 16% EPS growth coming in 1% ahead of market estimates. Outlook remains positive with leverage to growing economic activity and a strong strategy to driver 10% MT growth.
SHL (+8.45%)	The Sonic result reflected the lift in global COVID testing rates with revenue up 33% and profit up an extraordinary 162%. We remain bullish as testing rates should remain elevated and a significant cash pile likely to be used for M&A.

Detractors	Comment
BHP (-14.73%)	A reversal in Iron Ore prices sent the mining sector lower, however its was a significant announcement to demerge its Energy business that caused investor concern. We see the move as positive, delivering exposure to higher growth commodity markets and a stronger balance sheet.
WPL (-9.22%)	A solid FY21 result was overshadowed by the significant announcement that WPL intends to progress with a scrip merger with BHP’s Energy assets. Short term focus was on the potential scrip overhang however we see the merit in the scale benefits as well as continue to see near term catalysts.
WOR (-3.94%)	Worley delivered an FY21 result marginally below expectations as global COVID actions limited access to sites. Conversely the outlook looks to have strengthened, with energy transition projects to deliver growth and margin.

Sector Positioning



Top 10 holdings (alphabetical)

Amcor PLC
BHP Group Ltd
Coles Group Ltd.
Commonwealth Bank of Australia
National Australia Bank Limited
Nine Entertainment
QBE Insurance Group Limited
Sonic Healthcare Limited
Telstra Corporation Limited
Westpac Banking Corporation

Portfolio metrics

	Ralton	XKOAI
# of Securities	27	200
Market Capitalization	60,492.5	69,592.8
Active Share	65.6	--
Tracking Error	4.41	0.00
Beta	0.95	1.00
Est 3-5 Yr EPS Growth	9.1	10.2
ROE	6.6	11.0
Div% NTM	4.73	3.80
P/E using FY2 Est	14.0	17.7
Price/Cash Flow	7.2	11.8

Portfolio Activity

BUY	Yield %	Comment
ALX	5.6%	Atlas Alteria (ALX) has an attractive suite of assets in the US and Europe with near term upside as traffic increases from vaccination driven mobility. Earnings are set to accelerate as we look through short term COVID disruptions. Trading at a discount to pre-COVID levels with a sector leading yield, adding ALX to the portfolio delivers the dual target of earnings and valuation upside from the global recovery.
SELL		
SKI	4.40%	We exit the portfolios position in Spark Infrastructure (SKI.ASX) as we see the revised bid and board acceptance at 2.95cps as highly likely to proceed. The bid values the group at a 1.46 EV/RAB multiple, a premium to it historical and peer trading range and with 2% upside to the bid price we see stronger returns elsewhere.

What's got me thinking?

The Reporting Season delivered another strong month for markets it called a halt to the strong period of earnings upgrades as the global impact of Delta saw forward EPS reduced by 2%. Given the impact of lockdowns, how do you benefit from the opening trade without stepping into an earnings downgrade like the one delivered by United Malt (UMG) due to supply chain disruptions. We are seeking firstly be exposed to the movement of people, services (e.g. ALX) rather than goods given we expect supply chain issues to continue well past economies are fully vaccinated. Secondly, its is even more important to focus on a company's competitive position and balance sheet (e.g. ADH) as its maintains earnings with the rising cost of inputs needed to be passed on and carried in inventory.