Ralton Australian Equity Ex 50

Monthly Portfolio Report | February 2023

Key facts

Income versus growth target

Income — Growth

Market cap bias

Large — Small

Investment strategy

A portfolio of ASX-listed equities designed to provide high capital growth

Investment objective

Outperform index by over 4% p.a.

Benchmark index

S&P/ASX Small Ordinaries Accumulation

Portfolio Manager

Will Riggall

Inception date

February 2008

Management fee

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

Number of stocks

20-35

External ratings

Zenith “Approved”

Key platforms

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

Performance (%, returns greater than one year are p.a.)[1]

At month end	1 mth	3 mth	1 yr	3 yr	5 yr	10 yr	Inception
Ralton	**-2.70%**	**-0.63%**	**-4.49%**	**3.07%**	**0.93%**	**7.00%**	**6.08%**
Income	*0.31%*	*0.56%*	*2.74%*	*2.41%*	*2.53%*	*2.89%*	*3.36%*
Growth	*-3.01%*	*-1.19%*	*-7.24%*	*0.65%*	*-1.60%*	*4.10%*	*2.73%*
Index[2]	**-3.70%**	**-1.21%**	**-7.97%**	**4.24%**	**3.56%**	**4.88%**	**2.16%**
Outperformance	**1.00%**	**0.58%**	**3.47%**	**-1.17%**	**-2.63%**	**2.11%**	**3.93%**

[1] Performance is based on a model portfolio and is gross of investment management and administration fees, but net of transaction costs. Total returns assume the reinvestment of all portfolio income.

[2] Index means the S&P/ASX Small Ordinaries Accumulation Index

Portfolio Performance

The Ralton Ex 50 Portfolio outperformed the S&P/ASX Small Ordinaries Accumulation Index in February, returning -2.70%, +1.00% ahead of the -3.70% index return. A focus on investing in companies with strong competitive advantages and valuation support has held the portfolio in good stead during an extended period of volatility.

Contributors	Comment
MMA Offshore Limited (MRM) 21.2%	It was another very impressive result from vessel contracting company MRM which slightly beat their earnings before income tax and amortisation guidance. The beat was driven by higher vessel utilisation and daily charge rates which directly influence earnings. Strong cash flow generation has the group now in a net cash position, freeing up potential for future capital management. Group net tangible assets improved to $1.15 as the fleet was revalued higher to reflect demand for their services. The outlook commentary was very positive, with management expecting further increases in daily charge and utilisation rates. We like MRM's diversification strategy to pursue projects away from oil and gas but expect capital expenditure across all energy markets to extend for some time following a period of underinvestment. With no new vessel supply coming on the market, the demand/supply fundamentals are firmly in MRMs favour for the foreseeable future.
Steadfast Group Limited (SDF) 12.4%	SDF's recently released 1H23 financial results showed an impressive 18.2% growth in net profit after tax, which resulted in a noticeable increase in the company's share price for the month. This growth can be attributed to the positive flow-on effect from insurers' gross written premiums, as the industry continues to benefit from strong demand and the passing on of inflation through higher premiums. This tailwind is expected to further support SDF's growth, making it an attractive market to participate in for the short to medium term.
Smartgroup Corporation Ltd (SIQ) 13.1%	SIQ reported its first half results at the end of February, hitting slightly above the top end of guidance provided earlier in the month. Improved novated leasing yield offset a modest fall in vehicle settlements. Management also revealed a strong vehicle order pipeline, increased electric vehicle purchasing and a special dividend which was received positively by the market.

CONTACT Ralton AM 0425 725 800 info@raltonam.com.au raltonam.com.au

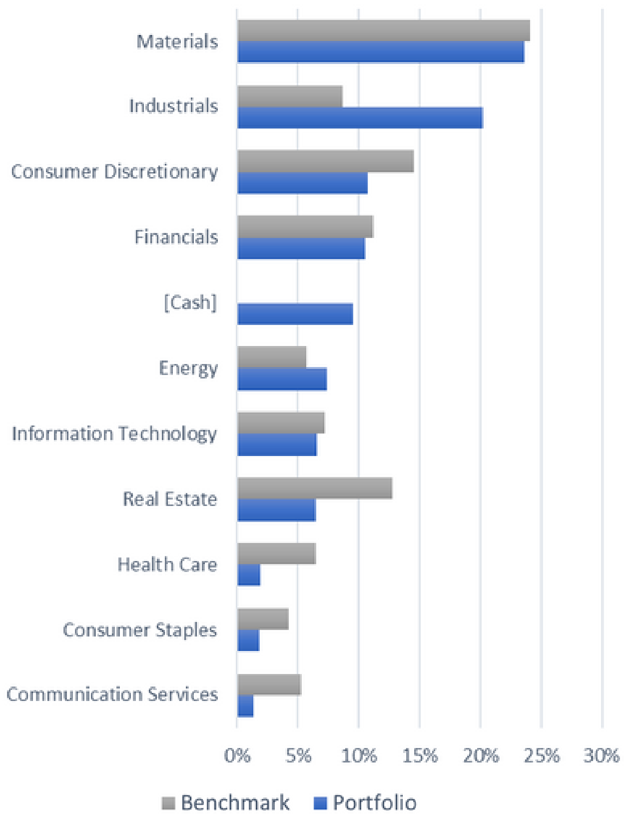
Detractors	Comment
Regis Resources Limited (RRL) -18.7%	RRL released its first half result in the month recording $197 million earnings before income tax and amortisation and a $30 million loss due to the rise in the cost of gold from $250 per ounce to $1,771 per ounce. This surprised the market and saw the stock fall 18.5% over the month. RRL's cashflow rose $12 million to $148 million with the company flagging an improvement in its second half results. Two new projects will come on stream in this half, the Tropicana open pit and the Duketon underground project. In addition RRL is expecting a $67 million tax refund by June 2023. The company's cost per ounce of gold will fall over the next 2 years as production rises and an expensive hedge rolls off in May 2024. FY22 saw gold production of 437,000 ounces rising this year to approximately 475,000 ounces and will rise further by FY25 to about 540,000 ounces. If these targets are met, costs could drop by $100 per ounce.
Omni Bridgeway Ltd (OBL) -25.0%	OBL has a history of lumpy financial results, a result of time taken to complete litigation and lawsuits being notoriously difficult to predict. The first half results for OBL saw lower completed cases combined with an increase in the cost base of the company, both of which could be explainable in the current environment. The market did not like the CEO announcing his retirement on the back of these announcements and on the cusp of large projected cashflows.
Perenti Limited (PRN) -15.5%	PRN has enjoyed significant outperformance over the last 12 months, with the company upgrading three times in as many months. The half year result showed PRN continuing to execute operationally, with margins up and high levels of contract wins and renewals. We see the current market pullback the result of the strong price run, with the surging capital expenditure budgets from miners acting as a future catalyst for share price appreciation.

Portfolio Activity

BUY	
N/A	

SELL	
Ansell Limited (ANN.ASX)	ANN reported a soft first half FY23 result. Revenue was 5% below expectations while at the profit line the result was a 14% miss. The company downgraded its FY23 earnings per share guidance from USD1.25 to USD1.15. The weakest division was healthcare that recorded a 22% drop in sales partly on account of exiting its Russian business. Whilst we like the sector the company operates in, given the latest results, we decided to exit the position.

Sector Positioning



Top 10 holdings (alphabetical)

Centuria Industrial REIT	Regis Resources Limited
IGO Limited	Seven Group Holdings Limited
Incitec Pivot Limited	Smartgroup Corporation Ltd
MMA Offshore Limited	Steadfast Group Limited
Perenti Limited	Worley Limited

Portfolio metrics*

	Ralton	XSOAI^
# of Securities	*35*	*199*
Market Capitalisation	*3,116.5*	*2,460.0*
Active Share	85.7	--
Tracking Error	*6.67*	--
Beta	*0.78*	*1.00*
Est 3-5 Yr EPS Growth	-9.8	2.5
ROE	*10.3*	*12.0*
Dividend %	2.95	3.02
P/E using FY2 Est	13.0	14.2
Price/Cash Flow	8.1	7.9

* Source: FactSet

^ XSOAI means the S&P/ASX Small Ordinaries Accumulation Index (Index). The Index is shown for comparative purposes only Index returns do not allow for transaction, management, operational or tax costs. An index is not managed and investors cannot invest directly an in index.

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