Ralton Australian Equity Ex 50

Monthly Portfolio Report | August 2023

RALTON ASSET MANAGEMENT

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	2 yr	3 yr	5 yr	10 yr	Inception
Ralton	**-0.92%**	**2.23%**	**2.04%**	**-4.97%**	**2.41%**	**0.05%**	**6.53%**	**6.00%**
Income	*0.32%*	*0.47%*	*2.48%*	*2.56%*	*2.54%*	*2.41%*	*2.78%*	*3.32%*
Growth	*-1.23%*	*1.76%*	*-0.44%*	*-7.53%*	*-0.13%*	*-2.36%*	*3.75%*	*2.67%*
Index[2]	**-1.31%**	**2.22%**	**-1.12%**	**-8.14%**	**3.00%**	**2.40%**	**5.74%**	**2.14%**
Outperformance	**0.39%**	**0.01%**	**3.16%**	**3.17%**	**-0.59%**	**-2.35%**	**0.79%**	**3.85%**

[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 ASX Small Ordinaries in August, returning -0.92%, versus the index return of -1.31%. 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
Praemium Ltd (PPS) 28.6%	PPS reported its full year results during the month, showing positive signs with regards to revenue growth and margins, whilst keeping expenses under control in an inflationary environment. The result beat off bearish predictions around the quantum of money flowing off platform for alternative investments as interest rates rose. After a couple of soft quarters of flows it was pleasing for management to comment on improving inflows to the platform into the end of the period.
Nick Scali Limited (NCK) 16.9%	NCK delivered a strong 1H23 result, beating market expectations and driving its share price higher through August. The result was underpinned by an expansion in its gross margins, which are set to remain elevated as it continues to benefit from improved buying terms, decling shipping costs, normal promotional intensity and structural improvements. Whilst trading volumes will undoubtedly continue to be volatile in the months ahead, we remain positive on the outlook for NCK given its high quality nature is underscored by its clean balance sheet, strong market position, experienced management team and store expansion plans.
Johns Lyng Group Ltd (JLG) 21.4%	JLG released its full year result to the market during August, revealing pleasing revenue and profit growth across its subsidiaries and operating geographies. The company's expansion into North America continues along pleasingly, with the company seeing continuing work off the back of Hurricane Ian in Florida. The company also revealed it has a multi-year pipeline in Australia after the East Coast floods. We remain attracted to JLG with its inflation protected revenue model and exposure to higher environmental disaster frequencies.

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Detractors	Comment
IRESS Limited (IRE) -38.3%	IRE had a very disappointing August, with its 1H23 results coming in much softer than expected and leading to a downgrade of its FY23 guidance. Soft revenue, higher than expected costs and a suspension to its dividend were the key drivers. It wan't all negative news with its core Australian businesses performing and maintaining their dominant market positions. IRE expects to deliver further cost-out into FY24, with the potential sale of its 'non-core' businesses reducing pressure on its balance sheet. A clear business transformation is underway, however, it won't happen overnight.
Credit Corp Group Limited (CCP) -9.3%	In August, Credit Corp posted its FY report, leading to some share price weakness. This was largely attributed to a challenging macroeconomic environment, prompting downward revisions in forecasts. Nevertheless, the company has demonstrated improved productivity metrics in the second half and has successfully grown its U.S. payers' book by 25% yoy. Furthermore, cost management remains efficient. Despite the industry-wide challenges, there is an emerging trend of better pricing. CCP, with its strong balance sheet, is well-positioned to capitalize on favourable U.S. PDL volume flow and potential accretive, bolt-on M&A opportunities.
Perenti Limited (PRN) -11.3%	PRN had a volatile month, with a strong result on all fronts including top line growth, profitability and cash generation, with all segments underground, surface and mining services displaying strong double-digit growth. The market, however, seemed to focus on an accounting decision by the company to expense its 10-20% of free cash flow into research and development as opposed to capitalising it. Looking beyond this, we see the imminent tie up of PRN and DDH as accretive and beneficial to shareholders.

Portfolio Activity

BUY	
Rural Funds Group (RFF)	In August, we initiated a position in RFF, seeing substantive value upside. Market concerns over RFF's gearing position appear to underestimate the liquidity of its water rights, which can be monetised if necessary. We expect a further rise in net asset value (NAV), recently revised to $2.97, especially as Macadamia assets mature. FY24 growth prospects are promising, driven by a profitability turnaround in unleased operating assets and Macadamias, albeit offset by debt costs.
Johns Lyng Group Ltd (JLG)	In August, JLG posted favorable full-year results, with noteworthy revenue and profit growth across subsidiaries and operating regions. The company's North American expansion remains on track, driven by ongoing work following Hurricane Ian in Florida. A multi-year pipeline in Australia has also been secured post the East Coast floods. JLG's inflation-protected revenue model and heightened exposure to environmental disasters make it an attractive investment and support the addition.
Nick Scali Limited (NCK)	NCK delivered a strong full year result during the month, shrugging off concerns around a softening domestic economy and lower retail spending on the back of subsequent interest rate rises. The group delivered a record result which included all time high margins, driven by a strong improvement in its Plush Sofas business. The positive result will help the company continue to pursue its store roll out strategy in both the Nick Scali and Plush brands.
Domino's Pizza Enterprises Limited (DMP)	Following DMP's FY23 result, we took the opportunity to initiate a position as the company appears to have reached an inflection point following a strong rebasing of its costs and a more achievable path to growth as it rebuilds momentum in its network store sales. DMP should be a beneficiary of falling input costs, tighter cost controls following the closure of its non-profitable stores, a reduction in its global workforce and a redefined focus on new product development, value offering, quality and service. Additionally, the risk of a breach on its debt covenants or a capital raise now looks unlikely in FY24 given the estimated cost savings that will come through in FY24 and FY25.
Breville Group Limited (BRG)	BRG is a premium led brand that operates with attractive market positions supported by strong customer loyalty, innovation and a global expansion opportunity. Against a backdrop of ongoing consumer uncertainty, we view BRG as well placed given its premium product offering, managements proven disciplined cost control, well managed promotional activities and inventory levels. In our view, BRG's long-term earnings before income tax growth target of 10% looks achievable, underpinned by its strong operating leverage enabling greater investment into new product development, translating to higher organic sales growth and further market penetration.
Hansen Technologies Limited (HSN)	HSN is the provider of mission critical software to the communications and energy retail industries. The company has been family run since its inception. Its full year result reiterated the quality of HSN’s operations, with improved margins, good cost control and healthy top line growth. Some time has passed between HSN’s last acquisition in the telco/energy space, and with a net cash position, we believe merger and acquisition activity is imminent – for which HSN has an enviable track record.

SELL	
Peoplein Limited (PPE)	We divested our position in PPE in August following a disappointing earnings miss for FY23. While the company has prospects for partial recovery in its nursing segment and improvement in IT conditions in 2H24, lower earnings forecasts warrant caution. The FY23 results showed a particularly concerning decline in earnings before income tax, depreciation and amortisation (EBITDA) margin in the Healthcare and Community sector, along with a shift towards lower-margin contractors in Professional Services. Despite strong cash collection, the fundamental issues in earnings and margin performance, coupled with lower earnings outlook, prompted the divestment.
Credit Corp Group Limited (CCP)	We divested our position in CCP due to disappointing FY24 guidance and rising collection challenges. While FY23 net profit met guidance, FY24 outlook lags behind consensus by around 10%. Operational deleveraging and a cautious US collection guidance further inform our bearish outlook. This confluence of negative indicators has led us to recalibrate our forecasts and opt for divestment to mitigate risk exposure.
Seven Group Holdings Limited (SVW)	SVW delivered an impressive financial year result, particularly with WesTrac showing strong growth, Coates capitalising on infrastructure tailwinds, and Boral consistently outperforming expectations. The company's efforts to reduce debt were notably ahead of schedule, and their forward guidance was optimistic. However, recognising that these results might represent peak conditions for SVW, we took the strategic decision to divest our position. While the company is performing exceptionally, our move is a reflection of our assessment that the current valuation might be at its zenith.

Portfolio metrics*

	Ralton	XSOAI^
# of Securities	*36*	*199*
Market Capitalisation	*2,986.3*	*3,018.6*
Active Share	86.9	--
Tracking Error	*5.98*	0.00
Beta	*0.85*	*1.00*
Est 3-5 Yr EPS Growth	14.1	2.0
ROE	*13.3*	*9.3*
Dividend %	2.85	2.80
P/E using FY2 Est	13.4	13.1
Price/Cash Flow	8.3	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.

Top 10 holdings (alphabetical)

Hansen Technologies Limited	Ridley Corporation Limited
IGO Limited	Seven Group Holdings Limited
Nick Scali Limited	Smartgroup Corporation Ltd
Perenti Limited	Steadfast Group Limited
Reliance Worldwide Corp. Ltd.	Worley Limited

Sector Positioning