UWA SMIF

Equity Research Reports

Semester 2, 2023 (1H’24)

In collaboration with our sponsor

Introduction to UWA SMIF

About Us

The UWA Student Managed Investment Fund ('SMIF') is a student society based out of The University of Western Australia's business school that focuses on investment finance, funds management and economics. SMIF's objective is simple, we strive to provide high-quality practical exposure to enterprising students through the management of a live portfolio of ASX equities. We offer members the opportunity to experience investing and trading in a controlled, and safe environment, in a way that effectively complements their academic curriculum. The SMIF story has come a long way since the fund's inception in 2014 when it was endowed with $20,000 from our generous sponsor and ongoing mentor Viburnum Funds. The club has grown to become a premier student organisation that focuses on professional and personal development. It is led and run by student interns from global investment banks, consulting firms, accounting firms and law firms. In the years since founding, SMIF has grown its committee to more than 40 students, its community to more than 1000 students and runs numerous flagship events at the UWA business school.

Our Publications

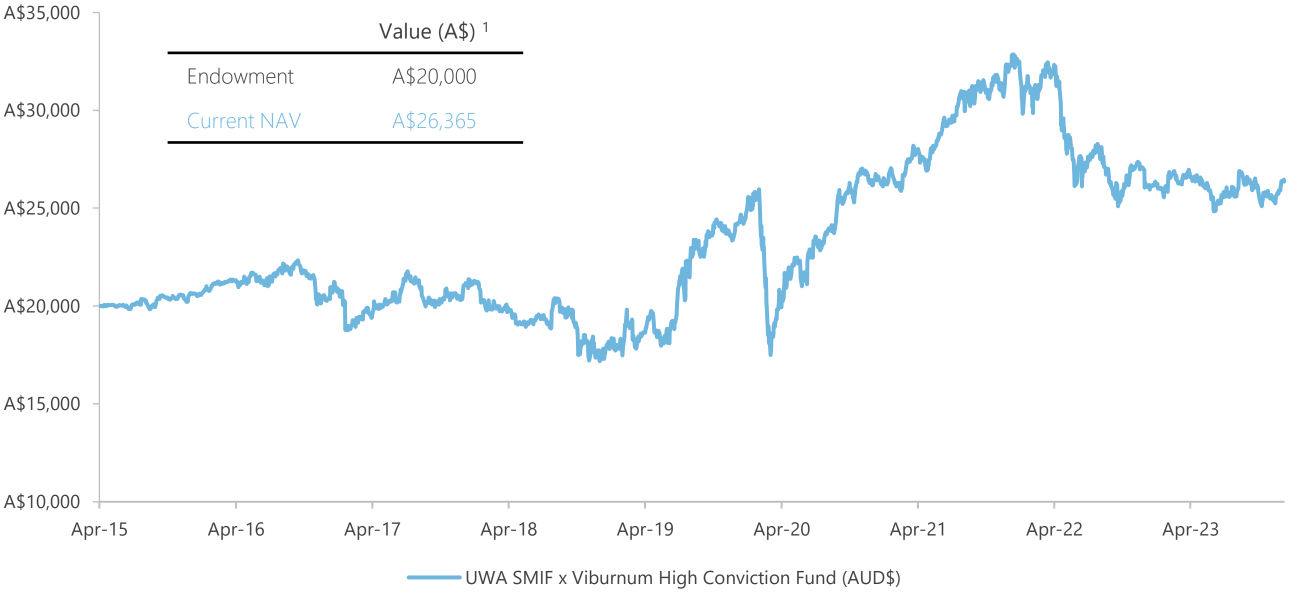
The aim of the SMIF Report is to showcase the work of the SMIF committee over the course of each university semester. The report contains an overview of the current SMIF portfolio asset allocations and performance analysis. From the investment team, we offer insights into the equity research process and highlight important findings from our research. The reports are a brief summary of the detailed stock pitch decks that our teams produce, which are pitched to professional fund managers at Viburnum Funds. The economics team provides important data-driven analysis into current economic trends and world events. Each semester we also select one or more economic topic(s) of interest and perform in-depth research to develop independent thought. These ideas are summarised within this report to provide students with an understanding of the economic research conducted at SMIF.

UWA SMIF x Viburnum High Conviction Fund Performance

Funds Under Management

Since inception, A$

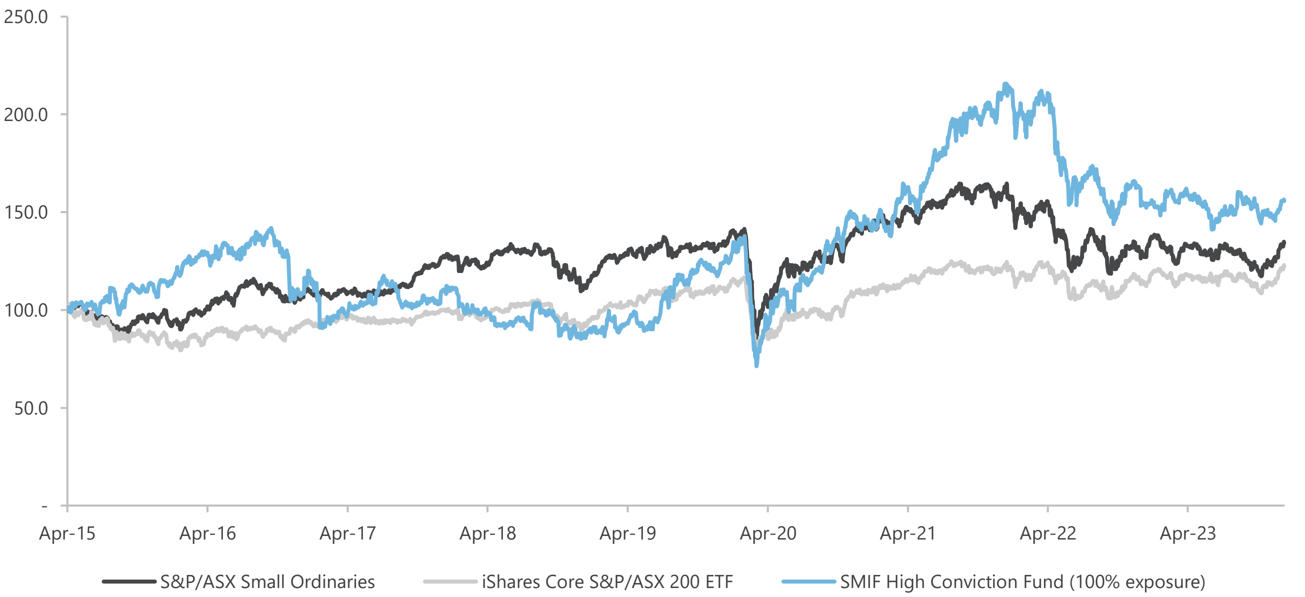
	Value (A$) [1]
Endowment	A$20,000
Current NAV	A$26,365



Source: Bloomberg. Market data as at 31-Dec-23.
Notes: 1 Net Asset Value ("NAV") shown includes cash balance and current mark-to-market value of holdings as at 31-Dec-23.

Performance Since Inception (Illustrative 100% equity basis)

Indexed as of 22-Apr-15 (Base = 100)



Source: Bloomberg. Market data as at 31-Dec-23.

UWA SMIF x Viburnum High Conviction Fund Performance

UWA SMIF High Conviction Fund Returns as at 31-Dec-23

% returns

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	1 Month
UWA SMIF High Conviction Fund (AUD)	+3.2%	+8.8%	(0.1%)	+1.0%	+0.9%	+3.8%
iShares Core S&P/ASX 200 ETF (AXJO)	+2.4%	+6.0%	+4.3%	+8.1%	+8.2%	+8.1%
Excess Return	+0.9%	+2.8%	(4.4%)	(7.1%)	(7.4%)	(4.4%)

Current market exposure of 65.2% (inception average of 58.1%)

UWA SMIF High Conviction Fund Returns as at 31-Dec-23

% returns

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Jan	-	+1.0%	(2.2%)	+0.2%	+0.1%	+5.1%	(0.8%)	(6.7%)	(0.5%)
Feb	-	+1.4%	(6.0%)	(5.5%)	+7.0%	(9.3%)	(0.1%)	+1.7%	+2.4%
Mar	-	+0.7%	+2.2%	(1.3%)	(6.6%)	(19.9%)	+4.5%	+3.7%	(0.5%)
Apr	-	(0.8%)	+1.4%	(0.8%)	+9.0%	+17.0%	+0.9%	(1.9%)	+0.2%
May	+0.3%	+2.6%	+0.5%	(2.4%)	(4.2%)	+2.5%	+0.8%	(9.9%)	(2.1%)
Jun	(0.5%)	(2.1%)	+1.1%	+0.9%	+0.7%	+0.1%	+6.1%	(5.0%)	(3.3%)
Jul	+1.1%	+1.7%	+5.3%	(0.0%)	+16.9%	+4.8%	+0.7%	+2.0%	+2.6%
Aug	(1.1%)	+1.4%	(2.0%)	+5.1%	+6.7%	+2.3%	+3.9%	(0.2%)	+4.2%
Sep	+2.3%	+1.3%	(3.6%)	(1.8%)	(1.6%)	+6.9%	+1.9%	(7.3%)	(2.0%)
Oct	(0.2%)	(2.5%)	+0.6%	(9.6%)	+6.0%	+0.1%	(2.9%)	+2.4%	(4.7%)
Nov	+1.0%	(6.3%)	+1.6%	+0.4%	(2.1%)	+4.9%	+2.7%	+4.2%	+1.2%
Dec	+0.4%	+3.4%	+2.3%	(1.5%)	+1.7%	(1.4%)	+4.6%	(4.3%)	+3.8%

UWA SMIF High Conviction Fund Excess Returns vs Benchmark as at 31-Dec-23

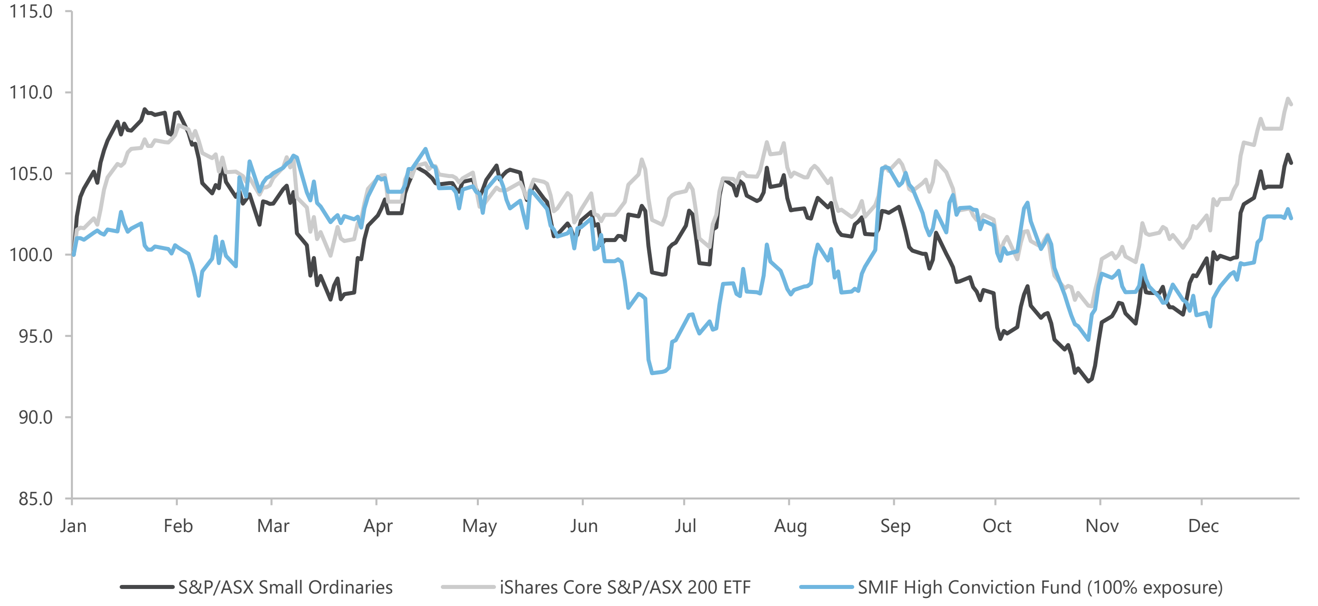
% returns

	2015	2016	2017	2018	2019	2020	2021	2022	2023
Jan	-	+6.5%	(0.4%)	+1.3%	(2.7%)	+0.9%	(0.7%)	+0.1%	(6.4%)
Feb	-	+3.3%	(8.3%)	(5.9%)	+1.2%	(1.5%)	(1.5%)	(0.6%)	+5.0%
Mar	-	(3.9%)	(1.3%)	+2.6%	(7.5%)	+0.6%	+2.2%	(3.1%)	(0.4%)
Apr	-	(3.5%)	+1.4%	(3.9%)	+7.9%	+9.3%	(4.1%)	+0.2%	(0.4%)
May	(0.3%)	(0.4%)	+3.3%	(3.3%)	(5.7%)	(2.4%)	+0.8%	(7.3%)	+0.5%
Jun	+4.8%	+0.6%	+1.0%	(2.4%)	(3.3%)	(1.6%)	+3.9%	+3.7%	(5.1%)
Jul	+0.5%	(1.3%)	+5.9%	(0.7%)	+15.4%	+4.6%	+0.2%	(1.4%)	+0.2%
Aug	+6.8%	+2.4%	(2.5%)	+3.7%	+9.2%	(0.7%)	+1.4%	(1.3%)	+5.2%
Sep	+5.3%	+1.0%	(3.6%)	(0.4%)	(3.5%)	+10.4%	+4.4%	(1.3%)	+0.6%
Oct	(2.9%)	+1.2%	(1.9%)	(1.5%)	+7.8%	(0.9%)	(1.6%)	(1.4%)	+0.8%
Nov	+1.6%	(9.4%)	(0.1%)	+2.1%	(5.5%)	(5.4%)	+3.1%	(2.4%)	(3.1%)
Dec	(0.8%)	(0.9%)	+0.6%	(1.4%)	+3.8%	(2.6%)	+1.9%	(0.7%)	(4.4%)

UWA SMIF x Viburnum High Conviction Fund Performance

2023 Performance

Indexed as of 1-Jan-23 (Base = 100)



Source: Bloomberg. Market data as at 31-Dec-23.

2023 UWA SMIF High Conviction Fund Holdings Returns

Share price (A$)

Ticker	Price at 1-Jan	Price at 31-Dec	% Change
STX	0.43 [1]	0.48	+12.1%
EHL	0.77	0.67	(13.0%)
ERD	0.83	0.94	+13.3%
JIN	13.98	13.91	(0.5%)
JLG	6.19	6.12	(1.1%)
LBL	0.83	0.90	+8.5%
NUF	6.13	5.22	(14.8%)
ALG	0.61	0.46	(24.0%)
IFM	1.20	1.44	+20.5%

Notes: 1. STX on average entry price basis

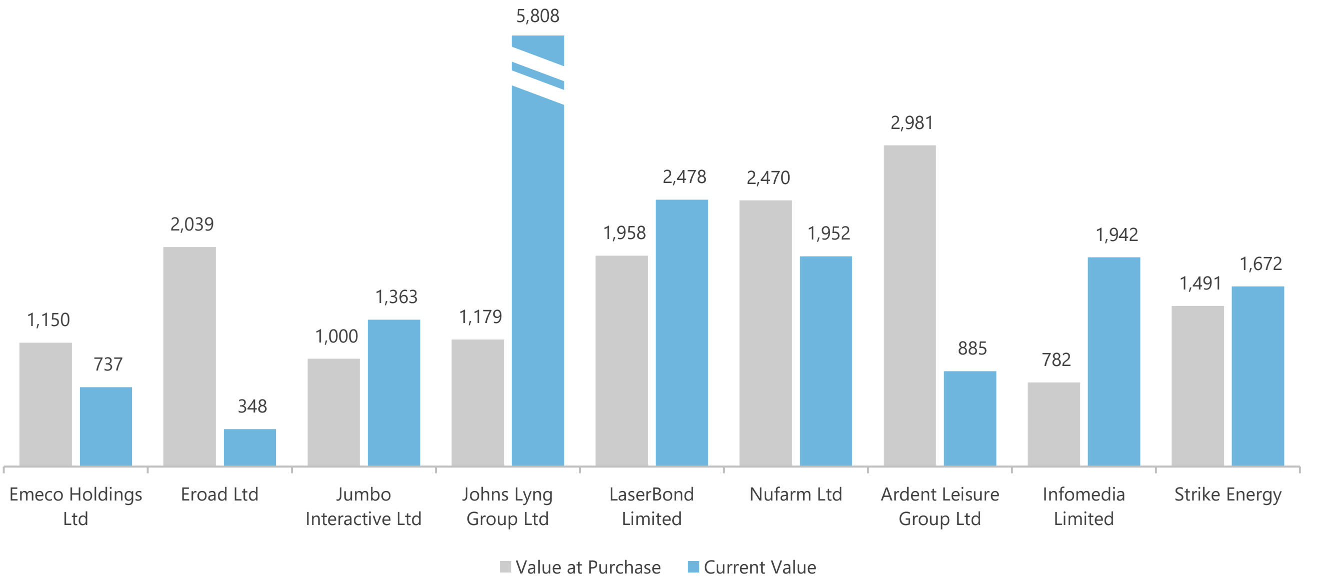
Semester 2 UWA SMIF High Conviction Fund Transactions

Ticker	Action	Date	At Price (A$)	Units
STX	Buy	14-Jul-23	0.44	1,818
STX	Buy	3-Aug-23	0.42	1,666

UWA SMIF x Viburnum High Conviction Fund Performance

Asset Allocation Weights as at 31-Dec-23 [1]

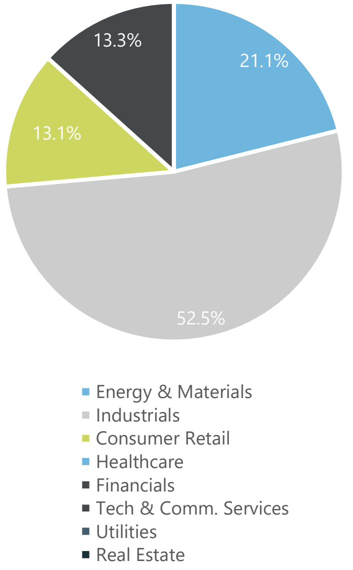
% returns, A$ absolute



Source: Bloomberg. Market data as at 31-Dec-23.
Notes: 1 Returns exclude dividends received during the holding period.

Sector Allocation [1]

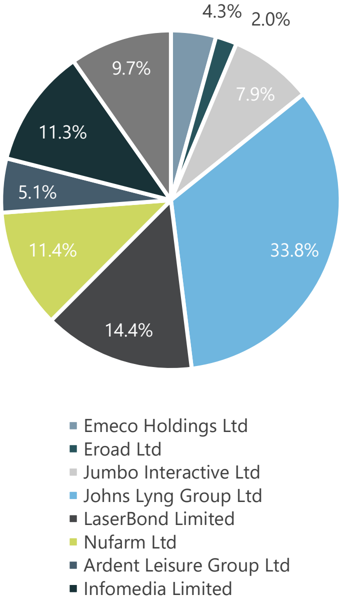
% holding across industries



Source: Bloomberg. Market data as at 31-Dec-23.
Notes: 1 Cash balance excluded.

High Conviction Fund Holdings [1]

% portfolio allocation



Source: Bloomberg. Market data as at 31-Dec-23.
Notes: 1 Cash balance excluded.

Aug 24, 2023 01:00 AWST

Pacific Smiles Group (PSQ AU) | ASX Equity

Greenfield growth DSO

Stock Rating	Industry View	Price Target
Overweight	Underweight	A$1.73 (+19.3%)

PSQ is a standardised dental centre operator with an organic growth rollout model. We are overweight PSQ as they are well positioned in the Australian dental industry which is ripe for consolidation, with predictable expansion from their clinic profile

Our key thesis on Pacific Smiles and what they need to achieve

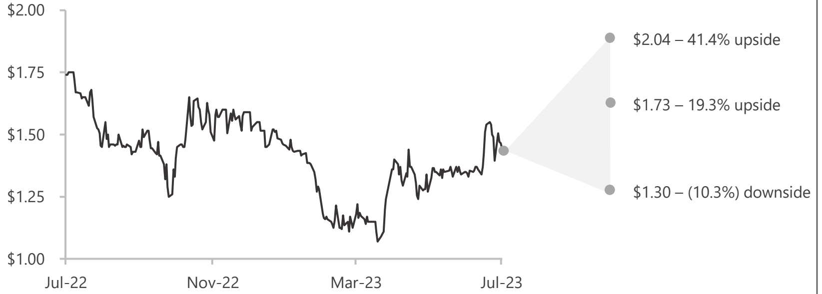
- **Increased government and private health spending:** Private Health Insurance industry headwinds have been overblown. Coverage is increasing while % of population covered returns to pre-COVID levels. This could mean higher reimbursements for centres and/or more insured patients seeking dental care.
- **Changing industry workforce dynamics:** PSQ benefits from lower labour-shortage risk and higher dentist productivity following regulation change in emerging dental roles. PSQ dentists streamline their workflow for higher av. chair margins. Most of the industry is unaffected (non-employing practices).
- **Cluster strategy creates economies of scale:** PSQ has predictable, streamlined dental centre rollout model. Centre rollout creates clusters, accelerating new centres movement towards profitability through vertical integration. PSQ's margins should expand, growing their lead against majority of peers.
- **Market is too bearish on management guidance:** PSQ's poor earning's guidance track record has drowned attention from their solid centre guidance history. Strong centre rollout will prove fruitful in the medium-term when economies of scale comes into effect – a contrary view to market expectations – PSQ will focus on short-term earnings figures instead of accelerated rollout.

What will change our view on PSQ?

- **Change in management:** Significant upside on the company value is stored in the execution of the company's long-term centre goals. Our views hold notable faith in management's ability to execute on their centre guidance figures. This view is structured around the CEO, Phil McKenzie maintaining his current performance. Most of the concern stems from Phil's history of short CEO position tenures (av. ~3 years), and PSQ's historically conflicted board.
- **Decline in quality centre locations:** PSQ has a long-term goal of reaching 250 centres. With a greenfield rollout model, quality vacancies are required to sustain their clinic return profile. If the industry becomes more saturated, PSQ will struggle to open profitable centres – a crucial factor for reaching their goal.
- **Adjustment of strategy:** If the direction shift proposed by founder A. Abrahams is executed, the company will see a turn in strategy from a high-growth rollout to focus on earnings accretion in existing practices. We believe this presents less upside in the company, and acts against our theses of vertical integration.

Risk reward graph [1]

Share price (A$/share)



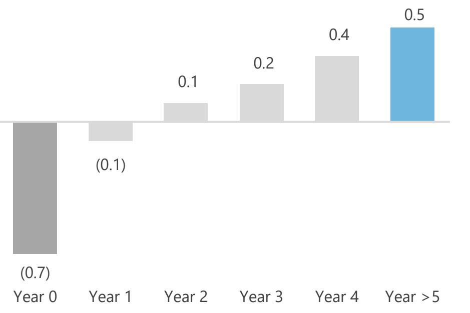
Sources: UWA SMIF Research, Company Reports, AIHW, CapIQ, APRA. Market data as at 24-Aug-23.
Notes: [1] Cases using 100% DCF perpetuity basis. [2] Indicative returns from company disclosures.

UWA Student Managed Investment Fund

Our thesis in three graphs

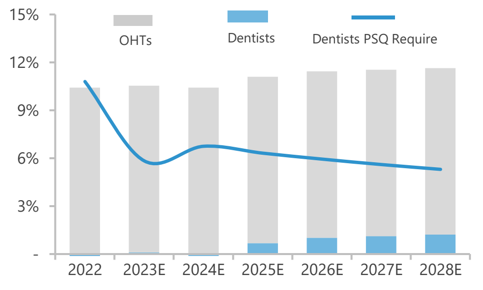
Predictable clinic return profile[2]

EBITDA per centre, A$m



Reduced labour-shortage risk

Position Growth %



Centre guidance track record

	Guidance: No. Centres	Same-Centre Fees growth	Result		Difference	
2016	8-10	5%	✓	✓	-	-
2017	10	5%	✓	✗	2	(1%)
2018	10	5%	✓	✓	-	-
2019	10	5%	✓	✓	-	4%
2020	7-10	6-8%	✗	✗	(2)	(11%)
2021	12	10.6%	✓	✓	3	15%

Trading Overview

Share price reflects effects of C19

Last two-year share price (A$/share)

Oct 26, 2023 12:00PM AWST

Mount Gibson Iron (MGX AU) | ASX Equity

Price-sensitive, short LOM producer of high-grade iron ore

Stock Rating	Industry View	Price Target
Equal-weight	Underweight	A$0.43 (-[x]%)

MGX is a high-cost producer of 65.3% iron ore with a remaining mine life of approximately 3 years. We remain bearish on MGX due to macroeconomic headwinds impacting iron ore pricing , concerns with management and shareholders, and FCF payouts.

Our key thesis on Mount Gibson and what they need to achieve

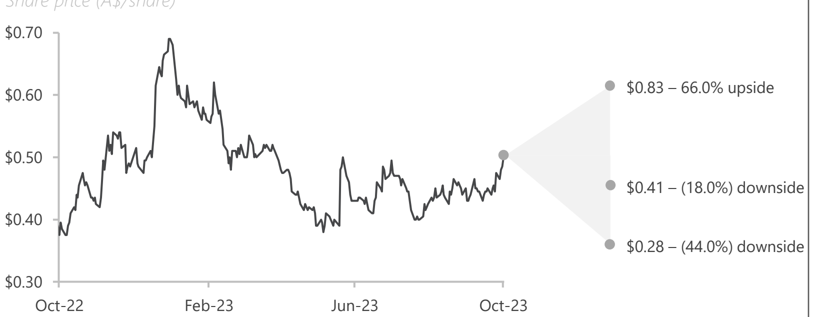
- **Short mine life with poor historical uplifts in reserves:** MGX's single asset Koolan Island has a 3-year LOM. Although additional exploration and drilling is taking place, MGX's current future is uncertain after reserves are fully extracted.
- **Macroeconomic headwinds - China:** As a high-cost producer, MGX is highly leveraged to iron ore pricing. We expect prices to fall as economic data from China confirms a continued slowing economy, and believe upside risk from govt. stimulus to be largely priced in. Even in an increasing price environment, we would expect other pure plays (FMG, CIA) to relatively outperform
- **Management and shareholder concerns:** The unannounced departure of the COO, and lack of board ownership are red flags, and epitomise the directors' misalignment with shareholders. Importantly, we calculate interlinked Chinese ownership totals 51.04% of shares, while owning MGX's offtake agreement.
- **Shareholder payout concerns:** Despite a 3-year mine life and healthy free cash flows, MGX provides no guidance on shareholder payout and has a poor track record of returning shareholder capital. With no obligation to pay out any dividends, we believe there is potential for cash mismanagement.

What will change our view on Mount Gibson?

- **Successful resource conversion and exploration:** If MGX can convert even a low percentage of their resource to reserves, our outlook changes dramatically as it can extend its life of mine and the possibility of future conversion becomes more likely. Positive drilling results in Koolan South would also be promising.
- **Macroeconomic headwinds are delayed or overblown:** Further and rapid stimulus in the Chinese economy allowing a faster than expected recovery could trigger a reversal in iron ore expectations. We model that if iron prices can even remain at, or above, current levels during MGX's short life of mine, shareholders will gain substantial value from MGX's highly iron ore leveraged stock.
- **Payout guidance released:** There is potential for shareholder value if management can release positive payout guidance. We believe this is maximised in the form of a special dividend that pays out all cash and winds up the company in the event LOM is not extended.

Risk reward graph [1]

Share price (A$/share)



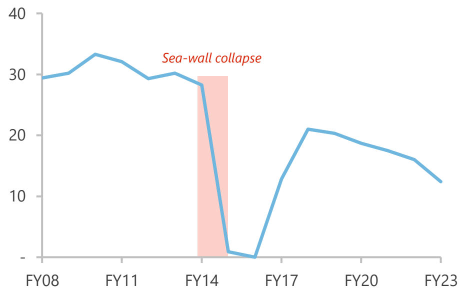
Sources: UWA SMIF Research, Company Reports, CapIQ, Bureau of Statistics. Market data as at 26-Oct-23.
Notes: : [1]Cases using 100% DCF (PT 1.0x NAV)

UWA Student Managed Investment Fund

Our thesis in three graphs

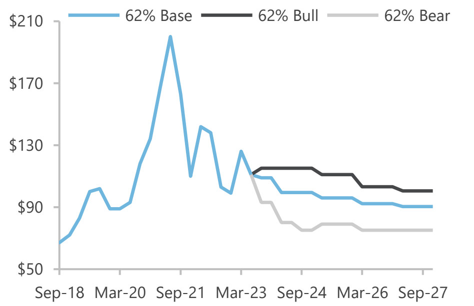
Depleting reserves imply ~3-year LOM

Amount of MGX Reserves (Mt)



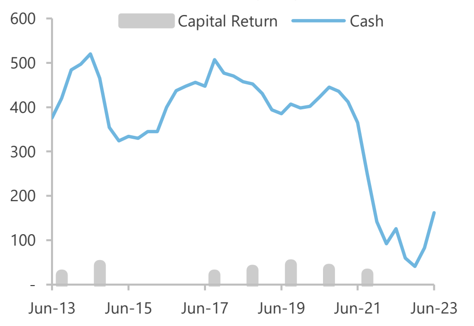
Bearish iron outlook from Chinese concerns

Iron Ore Price (US$/dmt)



Poor historical shareholder capital returns

Cash Balance & Dividends Paid (A$m)



Trading Overview

Share price highly correlated to iron ore

Last two-year share price (A$/share)

DOWNGRADE TO HOLD

November 10, 2023

Johns Lyng Group (JLG AU) | ASX Equity

Strong company growth is partially offset by industry risks.

Stock Rating	Industry View	Price Target
Overweight	Equal Weight	A$7.20 (+13.2%)

Johns Lyng Group is a diversified Insurance Building and Restoration Services (IBRS) company, with operations throughout Australia and the US. A strong growth strategy has expanded the scope of JLG to include construction and strata management.

Our key thesis on JLG and what they need to achieve

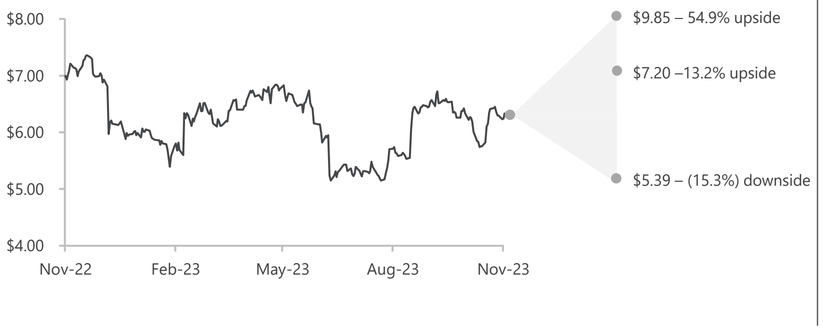
- **Value accretive M&A:** The bolt-on acquisition strategy used by JLG has supported value creation through the expansion of business capabilities and creation of synergies with existing services.
- **US expansion:** Another key value creation mechanism for JLG has been geographical expansion. This expansion has been largely focused on the US and driven primarily by M&A activity.
- **Established client base supports organic revenue:** Due to a large client base with many long-term contracts, revenue growth for JLG is likely to remain relatively stable going forward. This is supported by a large subcontractor register, providing increased capacity and project capability.

What will change our view on JLG?

- **Unpredictable weather patterns:** Demand for IBRS is strongly associated with regional weather patterns. The switch from a La Nina pattern to El Nino (occurring currently) has historically resulted in decreased property claims and subsequent decreased IBRS activity.
- **Industry wide cost pressures:** Construction industry conditions such as high input costs, supply chain delays and labour shortages have resulted in decreased profitability for companies within the sector. This has led to JLG moving its Commercial Construction business into run-off
- **Value destructive M&A, particularly in the US:** Integration of international operations is a risk faced by all companies with a global presence. JLG has applied several strategies to reduce the risk of failed acquisitions and market entry, but this risk remains relevant as the proportion of JLG's US revenue increases.

Risk reward graph

Share price (A$/share)



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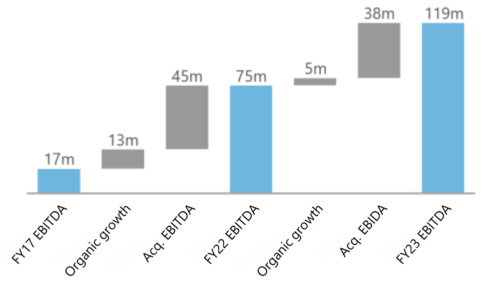
Our thesis in three graphs

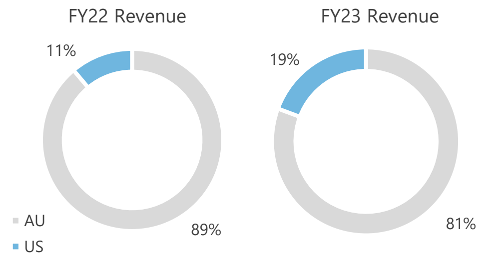
Bolt-on acquisition strategy value added.

EBITDA ($Am)



Revenue growth Australia vs US.

Revenue ($A)



Contract extensions with high value clients supporting revenue growth stability.

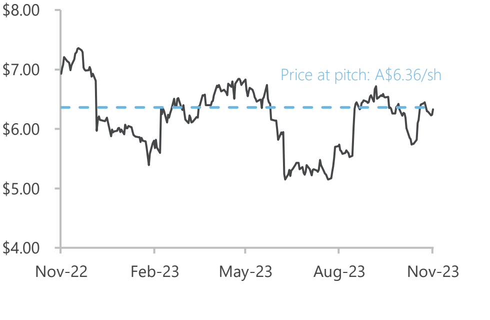
Client Register

Client	Commencement	Status
Suncorp Group	2018	Extended to 2024
QBE	2019	Extended to 2026
CHU Insurance	2019	Ended in 2022
IAG	2019	Extended to 2028
Youi	2019	Extended to 2028
Zoono	2020	Extended to 2025

Trading Overview

SP reflects industry volatility.

Share price for ($A/share)



UWA SMIF

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