COLLINS ST

VALUE FUND

August 2020

Reporting Season Update

National Tyre & Wheel (NTD)

iSelect Group (ISU)

Decmil Group (DCG)

Paradigm Biopharmaceutical (PAR)

Cash Converters (CCV)

The August 2020 ASX Reporting Season could best be described as underwhelming.

Corporate Australia offered little in the way of meaningful forward guidance yet still managed to produce a result that pushed the index up over 2% for the month. This provides further evidence of the stark disconnect between the performance of listed equities and that of the underlying economy. Of particular interest were the figures companies disclosed in relation to Job Keeper and other forms of Federal Government support.

As you'd expect in an environment such as this, those companies exposed to travel and entertainment were heavily funded in relation to Federal Government subsidies (i.e. Qantas, Crown and The Star) and delivered results in line with the significant impact COVID-19 has delivered to their business model. Other companies such as Dominos Pizza were able to use Job Keeper payments as a way to present profit growth in their business. This is a classic example of why it is important to cast a cynical eye over how companies achieve their headline results and how sustainable they might be moving forward.

In this update we will be sharing with you the key take-outs from the August 2020 ASX Reporting Season as they relate to some of our larger holdings. Whilst shorter-term returns are less relevant, it is noteworthy that there was little in the way of 'surprising' news flow coming out of our holdings and that the Fund continues to perform very strongly, both in absolute and relative terms. Having completed several meetings with company management post their respective announcements we remain very confident about the outlook for the Fund and look forward to participating in a pipeline of new opportunities as attractive entry points emerge over the coming months.

If you'd like to discuss any aspect of this update please contact our Head of Distribution and Investor Relations, Rob Hay on: 0423 345 975 or via email at: RHay@CSVF.com.au at your convenience.

National Tyre & Wheel (ASX:NTD)

When the Fund first purchased NTD it was at a discount to the fire sale value of their assets.

The business was good but had faced several challenging headwinds over the preceding 12 months. Those challenges included new car sales falling since 2017 and heavy competition from cheaper tyre makers overseas.

In response, National Tyre & Wheel repositioned themselves to better service the secondary market by providing better value tyres for the aftermarket.

National Tyres entered COVID-19 with a strong balance sheet and supportive shareholders.

Viewing the turmoil as an opportunity rather than simply a challenge to be beaten, NTD purchased a national wholesaler of tyres which will now be used to slingshot the company's earnings into the economic recovery.

Baseline messages include:

	2020	2019
EBITDA	$11.8m	$12.7m
NPATA	$5.7m	$8m
Revenue	$159m	$168m
Gross Margin	26%	28.7%
Net Assets	$69m	$70.5m

Managements comments were optimistic, highlighting the strong recovery since April and the overall defensiveness of the industry to economic challenge.

We think the company remains attractive on the basis of its NTA but are excited about the potential for the company growing their operating business going forward.

iSelect Group (ASX:ISU)

iSelect is a comparison website that allows customers to compare different utility and healthcare related products in one spot.

Having radically changed its board in 2018 (after a significant downgrade in earnings), the company suddenly found itself part owned by its major competitor, Compare the Market.

Over the past two years, Compare the Market has crept up the registry, and now owns over 30% of the business.

During that same period the operations of the business has been challenged as regulatory changes saw demand for their energy comparisons drop substantially. COVID-19 then saw the Federal Government delay the usual annual increases in prices for private health insurance, thereby impacting interest for the healthcare comparison product.

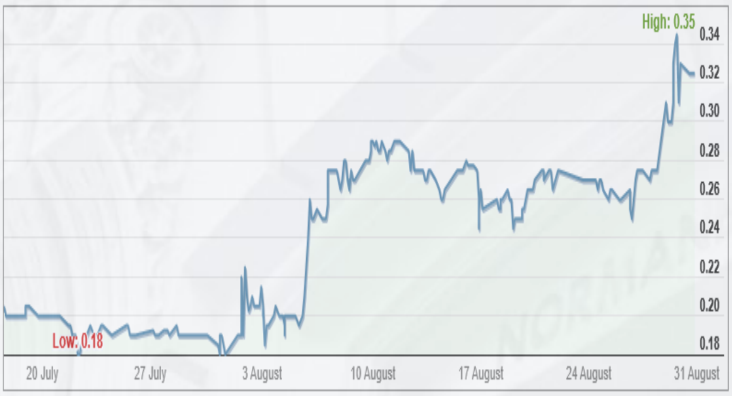
Nonetheless, attention was on the wind-up value of ISU and the potential for an iSelect and Compare the Market merger.

In early August, ISU reported that they had been in negotiations with Compare the Market who were interested in taking over ISU for 40c per share (a tidy premium to the then 20c per share, but still a discount to the NTA).

As those negotiations fell apart, Management advised that it intends to initiate capital management to realise the locked in (and unappreciated) net tangible value of the company.

Management have expressed a significant amount of optimism due to the recent cost cutting initiatives and the normalisation of its sectors. Additionally, the company's trailing commission book will begin to provide strong cash flows from the second half of FY2021.

As the graph shows, markets have reacted well.



Looking forward, we expect that Compare the Market will continue to attempt to purchase ISU. In the meantime, the outlook improves, and we anticipate iSelect growing its earnings and value.

Decmil Group (ASX:DCG)

Decmil is an engineering company that has seen its fortunes flag over the last couple of years.

Having once been a proud and profitable business, a decentralisation of its management saw decisions made that should not have been, and the company take on significant impairments.

We became interested in the company as they announced a recapitalisation, a focus on profitability over revenue, and a changing of the Board.

With the company's dirty laundry out for all to see, we were able to get comfortable with the outlook for the business (warts and all).

Given that the share price (5c) was a multiple of just 3x 2021 forecast earnings, we were confident that the company could get their act together and return to previous levels of profitability in the next 12-18 months.

As the company provided its full year numbers they were as bad as anticipated. However, great strides have been made, projects are being won, won profitably, and most of the previously challenging projects have been resolved with little or no (additional) cost.

Specifically:

- Revenue was down to \$450m, but is expected to return to \$600m by late 2021.
- NPAT down to -\$140 (within guidance)
- Overhead and fixed costs permanently reduced by \$11m p.a.
- Pipeline of over \$7 billion in projects, with government suggesting that infrastructure projects will be a key tool for turning around the economy.

There is no doubt that FY2020 was a tough year for DCG, but in driving to a brighter and better destination, watching the rear-view mirror is only going to end in tears.

DCG is now well capitalised, well managed, and likely to be highly profitable. We look forward to profiting from this revitalised company.

(ASX:PAR) Paradigm Biopharmaceutical

Paradigm's annual report confirmed that the company is moving forward with its plans and is fully funded for the next two years.

Still, given that the market was fully aware of these points, it was their recent market updates that carry more interest.

Paradigm have repurposed iPPS (previously used for irritable bowls and as an anticoagulant) for treatment of Osteoarthritis and other inflammatory indications.

In the last 2 months, PAR has received excellent news and updates on both their major indications (Osteoarthritis and MPS).

On OA, the company recently began treating patients in the USA. Initial results suggest that US patients are responding in much the same way Australian patients have. That is, patients are seeing significant and meaningful improvements in their pain.

Though COVID-19 may have caused some disruption to their plans, PAR intends to launch their Stage 3 trials in early 2021 - on time.

Once proven via Stage three trials, PAR will have an addressable market valued at over $100 billion p.a. worldwide. The company has stated that its target is to penetrate 10% of the market over the next few years.

Trials for Orphan indication MPS have also moved along with both the US and EU regulators providing guidance and approval for moving forward. All indications thus far have suggested that the treatment is generating excellent outcomes for patients, and that the addressable market is worth over $1 billion p.a.

There is some way to go before PAR becomes a profitable company. However, if it can achieve even a fraction of what it hopes to, it is worth many multiples of its current market cap.

Additionally, given some recent comments from management, we anticipate that the company is setting itself up for a potential takeover after its Stage 3 trials are completed while at the same time tooling itself to move into production and distribution independently.

Cash Converters Limited (ASX:CCV)

Best known for their local and online pawn shops, Cash Converters actually makes the majority of their profit from smaller, short to medium term loans.

We originally purchased Cash Converters because we believed it would perform especially well in an economic downturn, and more recently doubled our position when the company was being sued via a class action in Queensland. Our view at the time (of the second purchase) was that the share price was being unfairly priced due to the overhang of the class action, and that even a negative outcome in court would see the share price higher.

We were right. After losing over $40m in the class action, CCV had cleared the air and the share price rallied from 13c to 22c per share.

The company has since traded at about that price.

Cash Converters reported last week, and its details were interesting.

Despite our view that economic hardship would see CCV loans perform better, the opposite was the case. Ironically, the Government's Job Keeper and Job Seeker payments have seen the low income earner with more disposable income than normal.

In fact, a recent report from The Australian National University's Centre for Social Research suggested that the emergency payments have had the effect (albeit temporary) of eradicating poverty in Australia.

For Cash Converters, their FY2020 numbers saw:

- an increase in early loan repayments
- a reduction in loan enquiries
- a reduction in lending revenue

On the bright side, the company saw an increase in retail revenue with in store and online sales increasing materially over the COVID-19 period. In fact, headline numbers were rather good (especially compared to a weaker 2019).

	2020	Change
EBITDA	$62m	+51%
NPAT	$19.6m	+63%
Revenue	$279m	-0.9%
Cash position	$106.5m	+34.1%
Online retail sales	-	+42.6%
Online Lending	-	+61.2%

It will be interesting to see how Cash Converters navigates the upcoming recession.

We anticipate that once Government support payments and bank mortgage holidays cease, demand for CCV's loans will increase, as will their earnings.

Further Information

For more information please contact:

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Disclaimer

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Investors should seek independent, professional and licensed advice and read all relevant disclosure documentation prior to making a decision to buy, sell or continue holding any particular investment or investment product.

KEY FEATURES

Fund Name:	Collins St Value Fund ABN 72 216 927 242
Trustee:	Collins St Asset Management Pty Ltd ACN 601 897 974 AFSL 468935
Custodian:	Link Fund Solutions (Sub-custodian is JP Morgan)
Registry/Unit Pricing:	Apex Fund Administration
Auditors:	Pitcher Partners
Fund Inception Date:	5th Feb 2016
Investment Objective:	The Fund will seek to create strong investment returns over the medium to longer term, with capital preservation a priority.
Investment Strategy:	The Fund invests in a concentrated portfolio of Australian securities. It focuses on identifying deep value investment opportunities. This is achieved by identifying sustainable businesses trading at a discount to our assessment of intrinsic value.
Benchmark:	Index Unaware
Asset Class:	Long only ASX company securities & Cash (no derivatives).
Leverage:	None
Minimum Subscription:	$250,000 (or by negotiation) and only open to investors considered "wholesale investors" under Section s761G of the Corporations Act.
Investment Term:	There is no fixed investment term. Investors may apply to acquire Units in the Fund at any time the Fund is open for investment. Investors may redeem Units subject to the applicable liquidity and redemption policy.
Distribution Frequency:	Annually
Entry Fee:	Nil
Buy/Sell Spread:	0.50%
Applications/redemptions:	Monthly
Management Fee:	Nil
Performance Fee above Hurdle Rate:	25% (Hurdle rate is the 10 year Aus Gov't Bond Rate)