

16 April 2020

The Manager
NSX Market Announcements

****Typographical Error in holdings table – “Other Securities” should have read 5%, not 3%**.**

Investment Update – Quarterly Report to 31 March 2020

The Board provides the following unaudited investment update.

Company	% Of Portfolio
NGE Capital Ltd (NGE)	18%
Horizon Oil Ltd (HZN)	17%
8IP Emerging Companies Ltd (8EC)	15%
Chant West Holdings Ltd (CWL)	14%
Bowen Coking Coal Ltd (BCB)	9%
BBUS.AXW	8%
Tesseract Ltd (TNT)	6%
Thorn Group Ltd (TGA)	4%
**Other Securities	5% (Previously 3%)
Cash	4%
Total	100%

NTA per share fell 37.4% pre-tax in the March quarter. The losers were HZN, TGA and NGE.

HZN – Horizon Oil – For those of you that have been following me, Horizon Oil has been a key pick of mine for about 4 years. I originally invested in the company when the convertible note needed to be refinanced during the last oil price collapse. I originally purchased HZN at a cost of about 6c per share in my private investment vehicle Dawney & Co Pty Ltd. The thinking at the time, which followed through to January, was that HZN had substantial free cash flow (evidenced by the debt reduction over recent years) and there was a “free ride” on PNG. Dawney & Co Pty Ltd sold its HZN shares into Hamilton Securities as part of the 2018 Dawney/Mercantile recapitalisation at an effective price of 13.5c per share (the trading price at the time).

At the beginning of the March quarter allegations of bribery in PNG saw the share price fall and the company took further hits from the falling oil price and covid-19 triggered share market correction. This has been an incredibly disappointing investment not just for DWY but also for me personally (and in opportunity cost). We continue to hold – HZN has hedged 270,000 barrels at US\$68.35 to June 2020, which should see them in a net cash position.

TGA – Thorn Group provided an update on 2 March 2020 stating they will not meet guidance due to rising arrears in the business finance division “prompting higher write offs and bad debt impairment provisioning”.

NGE – NGE Capital’s largest position is Karoon Energy. KAR has fallen below its cash backing and with the current oil price its Bauna acquisition may fall over. This would see KAR’s share price trade closer with cash and inturn improve NGE’s NTA.

CWL – Chant West Holdings was added during the quarter at a cost of 10c per share. On 18 February 2020 the company announced they had entered into an agreement to sell the ChantWest business to Zenith Investment Partners for \$12m and at completion would have surplus cash of ~10cps that would be returned to shareholders. The transaction was to complete on 1 April 2020 however the buyer has claimed material adverse change. The Board pushed ahead with the EGM, where shareholders approved the sale of the business. The company filed proceedings against CW Bidco (buyer) on 5 April 2020 and we await judgement. CWL has also received interest in the remaining Enzumo business.

8EC – 8IP Emerging Companies – During the period we increased our stake in 8EC to 8.96%. On 16 March 2020 it was announced that 8EC had entered into an agreement with Lanyon Asset Management Pty Ltd whereby 8EC will return a further 5c per share (our cost is 7.18cps), undertake various capital restructuring and recapitalisation transactions and Lanyon will replace 8IP as manager. We are supportive of the transaction however are yet to receive the final distribution.

PWG – We bought Primewest Group on 11 November 2019 for \$180,990 and sold it late February, early March for \$207,828 – a profit of \$26,828 (or 14.8% in under 4 months). The sale cash allowed us to trade the March volatility.

Responding to volatility:

BBUS – US Strong Bear Hedge Fund provides investors with a simple way to profit from or protect against a declining US sharemarket. On 2 April 2020 we had sold this investment. Over the month of March we used these kinds of instruments (BBOZ, GGUS) to trade the volatility of the markets – each trade size was between \$150k and \$160k (the cash we had available from the sale of PWG). When taking into account the sale of the BBUS held at month end (and sold 2/4) we generated \$58,561 in profits or 36.6% on the cash we had available (helpful but not enough to offset the mark-to-market losses on the wider portfolio).

Subsequent to 31 March we bought \$500 worth of stock in range of finance companies and property trusts that may undertake SPP/UPPs in the future.

Cash – we currently have \$232k in cash which will bolstered by \$183k from 8EC and potentially a further ~\$280k from CWL (if the judgment is found in CWL’s favour). We continue to monitor the portfolio for attractive exit points to raise additional cash. We believe the medium term outlook will provide us with the opportunities that we have been waiting and hoping for.

Unaudited Pre-tax NTA per share:	10.67c
Unaudited Post-tax NTA per share:	10.67c*

*this amount does not include \$273k of estimated future income tax benefits (1.43cps)

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