

# Quarter Update Newsletter

30 June 2018 – 30 September 2018



NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT <sup>1</sup>
<b>\$1.54</b>	<b>\$1.39</b>	<b>\$0.07</b>	<b>9.0%</b>
as at 30 September 2018			

- » The September quarter was another positive one for the Kingfish portfolio (seventh in a row), with almost all of the return coming in August.
- » The portfolio delivered +4.4% gross performance return for the quarter as 13 of 17 positions delivered positive contribution, with the strongest performers being Ryman, Mainfreight and Delegat.
- » We initiated a small position in Pushpay during the quarter.

## Market price performance during earnings season more spectacular than the earnings themselves

On the whole, our portfolio scorecard for the results season was solid. More of the portfolio companies beat consensus earnings expectations than missed (5 beats, 2 inline and 4 misses so 64% of results were inline or beats). This compares favourably to the market that had 16 misses, 14 beats and 7 inline, so 56% of results were inline or beats.

Despite that solid yet not spectacular earnings season from the broad market, the stock market price performance was the best during an earnings reporting season in 18 years.

The broad stock market price performance during the key August reporting month was more heavily influenced by key twin drivers - interest rates and currency.

In the key August month, US 10 year bonds rallied to see yields close near 5 month lows. This more than translated to NZ bonds which saw a sharp rally with yields breaking to fresh two year lows. This saw the ratio of NZ 10 year bond yields vs US 10 year bond yields breaking new multi decade lows – in short, interest rates fell globally but they fell much more sharply in New Zealand.

On top of this, the NZD continued its fairly rapid depreciation, falling two cents (0.68 to 0.66) during the month.

The combination of these two factors makes NZ a more attractive destination to invest for offshore investors and we saw heavy offshore inflows into the equity market during the August month.

Mainfreight (+10%) also held its ASM during the quarter, with generally positive outlook comments including “a growing confidence due to improved trading results” and that “April to June has seen strong revenue growth; profit has improved accordingly”. Other comments indicate that this is likely to translate to a strong first half result (on a weak prior period) with the company “quietly positive” that results will sustain through FY19. This is relatively positive language from a company that tends to set a high bar and

## Notable Returns in the Quarter

DELEGAT GROUP	RYMAN HEALTHCARE	MAINFREIGHT	MERIDIAN ENERGY	AUCKLAND AIRPORT
+20%	+17%	+10%	+9%	+8%

under-promise. All geographies appear to be performing well, with particular emphasis that Mainfreight “expects to see Asia and the Americas improve markedly” after having been below expectations recently. The ASM and associated annual report was another reminder of the strong and extremely hard to replicate culture MOAT Mainfreight has built around its business.

## Pushpay added to the portfolio

We added Pushpay to the portfolio during the quarter.

Pushpay is a leading mobile payments and engagement provider to the US faith sector. In the space of five years it has gone from nowhere to become the fastest growing and preferred provider. It delivers best in class product and service, and its domain expertise combined with superior resources (both sales & research and development) gives us comfort that Pushpay will retain this edge over competitors.

We attended the investor day in the US during the September month and were impressed by the depth of strength below senior management levels and have been especially impressed by the exceptionally strong customer feedback we have received from our independent checks with various large churches in the US.

Pushpay is on track to reach breakeven on a monthly cash flow basis prior to the end of calendar 2018, with FY2019 on the cusp of EBITDA breakeven. It is not unreasonable to expect revenue growth over the next three to five years to continue to compound at ~30%+ p.a.

Pushpay remains a relatively early stage investment and we have initiated a minimum position.

**Sam Dickie**  
Senior Portfolio Manager  
11 October 2018



<sup>1</sup> Share price discount/(premium) to NAV (including warrant price on a pro-rated basis)

## Performance

as at 30 September 2018

	3 Months	3 Years (annualised)	Five Years (annualised)
<b>Company Performance</b>			
Total Shareholder Return	+3.4%	+14.9%	+11.7%
Adjusted NAV Return	+3.7%	+17.5%	+13.0%
<b>Portfolio Performance</b>			
Gross Performance Return	+4.4%	+20.3%	+15.8%
S&P/NZX50G Index	+4.6%	+18.7%	+14.6%

### Non-GAAP Financial Information

Kingfish uses non-GAAP measures, including adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return. The rationale for using such non-GAAP measures is as follows:

- » adjusted net asset value – the underlying value of the investment portfolio adjusted for capital allocation decisions after fees and tax,
- » adjusted NAV return – the net return to an investor after fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, before fees and tax, and
- » total shareholder return – the return to an investor who reinvests their dividends, and if in the money, exercises their warrants at warrant maturity date for additional shares.

All references to adjusted net asset value, adjusted NAV return, gross performance return and total shareholder return in this newsletter are to such non-GAAP measures. The calculations applied to non-GAAP measures are described in the Kingfish Non-GAAP Financial Information Policy. A copy of the policy is available at <http://kingfish.co.nz/about-kingfish/kingfish-policies/>

## Company News

### Dividend Paid 28 September 2018

A dividend of 3.00 cents per share was paid to Kingfish shareholders on 28 September 2018 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 45% of shareholders participating in the plan. Shares issued to DRP participants are at a 3% discount to market price. If you would like to participate in the DRP, please contact our share registrar, Computershare on (09) 488 8777.

## Portfolio Holdings Summary

as at 30 September 2018

LISTED COMPANIES	% Holding
Abano Healthcare	1.7%
Auckland Int Airport	5.3%
Delegat Group	3.8%
Fisher & Paykel Healthcare	11.8%
Fletcher Building	3.1%
Freightways	9.2%
Infratil	7.2%
Mainfreight	11.4%
Meridian Energy	3.0%
Michael Hill International	3.4%
Port of Tauranga	3.3%
Pushpay Holdings	2.0%
Restaurant Brands NZ	4.1%
Ryman Healthcare	7.3%
Summerset	6.3%
The A2 Milk Company	10.0%
Vista Group International	4.0%
<b>Equity Total</b>	<b>96.9%</b>
New Zealand dollar cash	3.1%
<b>TOTAL</b>	<b>100.0%</b>

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