

Quarter Update Newsletter

1 January 2020 – 31 March 2020



NAV	SHARE PRICE	WARRANT PRICE	DISCOUNT ¹
\$1.39	\$1.29	\$0.03	6.6%

as at 31 March 2020

Dear shareholders,

It has been an extremely eventful quarter in financial markets. Coronavirus has had extreme ramifications for millions of businesses around the globe, who are having to deal with the implications of government sanctioned lockdowns. The Kingfish team is fully functional and currently working from our respective home offices. We had detailed and well-practiced business continuity plans in place and have access to all required research and trading systems.

Market update

When we have a such a sharp and material pandemic driven economic event, all previous modelling goes out the window. BUT, our process is more critical now than ever.

I will leave the hyperbole to the newspapers. Our thoughts are with those acutely affected by the COVID-19 crisis.

We have spoken to our Kingfish portfolio companies, their competitors, their suppliers, their customers and industry experts on 120 occasions in the past six weeks - more than eight times per company. Our process has gone into over-drive! During this process we have asked four questions: 1. How are you ensuring the safety and security of your team, your customers and your suppliers? 2. How is your liquidity position? 3. What is a bear, base and bull case outcome for your revenues and profits? 4. How do you ensure you emerge from this better positioned than your competitors?

Our companies fit into four broad buckets:

Companies that should trade well through the COVID-19 crisis

We have spoken with **a2 Milk** several times, have received feedback from channel contacts and are monitoring real time demand indicators. The company has fared well, taking market share as mothers have shored up their infant formula supplies, often through the online channel where a2 is very strongly positioned.

Our analytical process during the last quarter has been quite different for **Fisher & Paykel Healthcare**. COVID-19 is a respiratory illness and Fisher & Paykel Healthcare are respiratory and humidification experts. The company is ramping production in its hospital division as rapidly as possible to treat COVID-19 patients with its invasive ventilation and its high flow oxygen devices and consumables. Most of our analysis has centred around sizing the amount of extra volume the company will sell in this

Significant returns impacting the portfolio during the quarter

FISHER & PAYKEL HEALTHCARE	RYMAN HEALTHCARE	SUMMERSET GROUP	AUCKLAND INTERNATIONAL AIRPORT	VISTA GROUP
+37%	-37%	-38%	-43%	-68%

crisis. We have learned that it pays to have flex capacity on hand as a manufacturer – Fisher & Paykel Healthcare have been able to ramp up 30% extra hospital product capacity within two weeks.

Companies that have more defensive earnings streams

The bulk of **Infratil's** portfolio is well positioned to endure COVID-19, namely data and communications investments Canberra Data Centres and Vodafone NZ, plus electricity investments Trustpower and Tilt. Although Wellington Airport is operating well below capacity, this only comprises 12% of Infratil's net asset value and is actually much less reliant on international travel than Auckland Airport. The balance sheet is in a solid position - we think Infratil has more than twice as much in sources of capital as it is likely to have uses for capital over the next twelve months.

Companies that have more economically sensitive earnings streams

Mainfreight has over \$300m of liquidity available with no debt refinancing requirements for the next two years so will be able to withstand a protracted downturn. We have added to our position amid the uncertainty as the company will make good long-term decisions and emerge well positioned to outperform competitors and take market share. Mainfreight's aim is to pull through without letting go of its most valuable assets, its people. The company is seeing its team members reciprocate its loyalty to them - they are proud to be providing an essential service to keep New Zealand and the globe going during the crisis.

We have run stress tests on our retirement operators **Ryman** and **Summerset**, testing liquidity, cash flow, and balance sheet strength. Ryman has \$300m headroom on its debt facilities and Summerset has over \$400m, both with no meaningful expiries for two+ years. Both can withstand large falls in new sales and resales without breaching covenants. Long wait lists and residents often having medical events that necessitate moving into a village or into care mitigates

¹ Share price discount to NAV (including warrant price on a pro-rated basis and using NAV to four decimal places).

the risk that sales are weak for an extended period of time. This is a time when both operators will provide assurance and comfort for their residents and further build their brand strength.

Companies that are in the eye of the storm

Auckland Airport is a very long duration near monopoly asset, and is priced near our long-term bear case valuation, so we added to the position. People will travel again.

Almost every cinema globally is shut - **Vista's** customer base is acutely hurting. We have spoken to Vista's management and board a number of times and also had calls with multiple

global cinema chains. We have modelled the monthly liquidity position to test if the company can survive a prolonged crisis situation. The long-term story and moat around Vista's core cinema business is intact.



Sam Dickie
Senior Portfolio Manager
20 April 2020



Performance as at 31 March 2020

	3 Months	3 Years (annualised)	5 Years (annualised)
Company Performance			
Total Shareholder Return	(17.4%)	+10.7%	+8.7%
Adjusted NAV Return	(14.0%)	+10.6%	+11.1%
Portfolio Performance			
Gross Performance Return	(14.5%)	+13.3%	+13.7%
S&P/NZX50G Index	(14.8%)	+10.8%	+10.9%

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 expenses, fees and tax,
- » adjusted NAV return – the net return to an investor after expenses, fees and tax,
- » gross performance return – the Manager's portfolio performance in terms of stock selection, before expenses, 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 27 March 2020

A dividend of 3.24 cents per share was paid to Kingfish shareholders on 27 March 2020 under the quarterly distribution policy. Interest in Kingfish's dividend reinvestment plan (DRP) remains high with 43% 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 31 March 2020

LISTED COMPANIES	% Holding
Auckland Int Airport	5.0%
Delegat Group	2.9%
Fisher & Paykel Healthcare	18.6%
Freightways	3.9%
Infratil	10.1%
Mainfreight	15.7%
Meridian Energy	2.3%
Port of Tauranga	3.9%
Pushpay Holdings	1.7%
Ryman Healthcare	5.2%
Summerset	5.7%
The A2 Milk Company	16.6%
Vista Group International	2.3%
Equity Total	93.9%
New Zealand dollar cash	6.1%
TOTAL	100.0%

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