

# CONTANGO INCOME GENERATOR LIMITED (ASX:CIE) INVESTMENT UPDATE AND NTA STATEMENT

31 October 2018

PERIOD	INCOME RETURN <sup>2</sup>	CAPITAL RETURN <sup>3</sup>	TOTAL RETURN <sup>4)</sup>	INCOME RETURN INCL FRANKING CREDITS	TOTAL RETURN INCL FRANKING CREDITS <sup>5</sup>
1 Month	0.00%	-7.24%	-7.24%	0.00%	-7.24%
3 Months	1.83%	-7.43%	-5.60%	2.22%	-5.36%
6 Months	3.53%	-5.50%	-1.97%	4.29%	-1.46%
1 Year	6.47%	-10.78%	-4.31%	7.86%	-3.32%
3 Years (annualised)	6.53%	-3.26%	3.27%	7.94%	4.71%
Inception <sup>1</sup> (annualised)	6.08%	-2.89%	3.19%	7.37%	4.55%

## Notes:

1) Inception date is 13 August 2015. 2) Income Return is the income paid during the period divided by the beginning period pre-tax net tangible assets (NTA) per share. NTA is the underlying portfolio value after all fees and expenses are deducted; 3) Capital Return is the movement in pre-tax NTA during the period; 4) Total Return is the Income plus Capital Return; and 5) Does not consider the individual investors personal tax position.

## INVESTMENT OBJECTIVE

CIE is an **income focussed** listed investment company, **with a portfolio of stocks outside of the top 30 ASX listed companies**. The stated **objective of the company is to distribute 6.5% of the pre-tax Net Tangible Assets (NTA) per annum, while maximising franking where possible**. We select companies that, in aggregate, generate a sustainable dividend income. The portfolio is characterised by a strong and diverse portfolio of companies that exhibit good cashflows and business models.

## PERFORMANCE SUMMARY

Contango Income Generator's (CIE) net tangible assets (NTA) fell broadly in line with the market over October, with a return of -7.2%. The NTA before tax stood at \$0.91 per share. Over the past 12 months the company has paid an income (including franking credits) of 7.9%, slightly above its long-term average of 7.4% pa.

**CIE's closing share price on October 31 of \$0.89 equates to an estimated annual yield of 7.1%. Assuming franking at 50%, the gross yield is estimated at 8.6%.**

October saw a severe sell off in global equity markets with the ASX 200 Accumulation Index down 6.5%. Globally, most markets were weak, with the tech heavy NASDAQ in the US and the NIKKEI in Japan both down around 9%. As often happens, the stocks and sectors that lead the market up were sold down the heaviest.

Issues that have worried the market for most of the year, such as trade wars, the Italian budget, oil markets and other macro issues, appeared to come to the fore. There also seemed to be a delayed reaction to last month's bond market sell off.

While we have seen a correction, it should be kept in mind that the market has had a very strong run, and pullbacks are a normal part of the market cycle. **Recent economic data appears slightly softer but remains firm overall**. Commodities appear relatively firm as well, **giving some confidence we are no closer to start of a recession**.

The portfolio's cash position at the end of the month was 3.4%, this is compared to a target cash weight of 5%. We expect to be opportunistic with our investing so that cash can move around this target.

## PORTFOLIO COMMENTARY

Activity in the portfolio picked up over the month, as we took the pullback as an opportunity to make several changes. We exited the position in Scottish Pacific (which we discussed in [last month's update](#)) and sold some Navitas – both of which are under bid.

The position in Inghams was also trimmed into bid speculation. Most of the stocks added have already declined materially over the month and **we are finding some very attractive valuations and dividend yields**. These additions included, Carsales, Viva Energy, Star Entertainment, GWA Ltd, Perpetual Ltd and Virtus Health.

As mentioned earlier, last month's selling was indiscriminate with most sectors falling between 3-6%. The Utility sector, typically a strong defensive sector in pullbacks, was only off 2%. Energy fell 9% on a weaker oil price after performing strongly for most of the year.

The best performing stocks over the month were Navitas +13% (which received a bid), Spark Infrastructure +3% and Aurizon +2%.

Poor performers were primarily those stocks subject to Government enquiries, with the Aged Care and Petrol Retailing (NZ) enquiries announced over the last few months. Poor performers included, AMP, Perpetual, Automotive Holdings, Regis Healthcare, IOOF Holdings and Z Energy.

The impact on performance from Government enquiries has been significant over the last year. The unpredictability of the process and outcomes is unsettling for equity markets. Though the portfolio yield is tracking well above its target of the market yield plus 100bps, we will continue to use any market volatility to further enhance income.

## PORTFOLIO OUTLOOK

Interest rates remain low and economic activity, although slowing slightly, remains positive. Indications of inflation remain largely benign giving confidence that **the investment outlook remains favourable**.

## NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	31 Oct 2018	28 Sep 2018
NTA before tax	\$0.910	\$0.981
NTA after tax and before tax on unrealised gains	\$0.928	\$1.030
NTA after tax	\$0.916	\$0.965
Month-end closing share price (ASX:CIE)	\$0.890	\$0.920

## GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Communication Services	5.7
Consumer Discretionary	17.0
Consumer Staples	3.4
Energy	6.3
Financials	24.7
Health Care	2.5
Industrials	12.0
Information Technology	1.9
Materials	6.3
REITS	12.0
Utilities	4.9
Cash	3.4

## PORTFOLIO CHARACTERISTICS

October 2018	CIE	ASX ALL ORDS INDEX
Dividend yield (gross)	7.4	6.2
Dividend yield (net)	5.4	4.5
Median market cap (\$m)	2,702	655
Price to earnings ratio	15.9	17.2
Earnings growth (%)	4.6	18.7
Return on equity (%)	20.5	16.4
Beta	0.89	0.98

Source: Bloomberg LLP

## COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of NTA
Historical franking	50%
Investment objective:	To distribute 6.5% of pre-tax NTA per annum while maximising franking credits
Number of stocks:	35 – 50
Target cash position:	5%
Portfolio size:	\$94.81 million
Shares on issue:	103.944 million
No. of stocks held:	47

## TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
BOQ	Bank of Queensland Ltd	4.9
TAH	Tabcorp Holdings Ltd	4.7
BEN	Bendigo & Adelaide Bank Ltd	4.6
SGP	Stockland Group	3.0
CTX	Caltex Australia Limited	2.8
SKI	Spark Infrastructure Group	2.8
BAP	Bapcor Limited	2.7
DLX	DuluxGroup Limited	2.7
MMS	McMillan Shakespeare	2.6
SGR	Star Entertainment Group	2.6

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