

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

31 January 2019

PERIOD	INCOME RETURN <sup>2</sup>	NTA 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%	5.68%	5.68%	0.00%	5.68%
3 Months	1.70%	-1.87%	-0.17%	2.07%	0.20%
6 Months	3.41%	-9.16%	-5.75%	4.14%	-5.02%
1 Year	6.36%	-13.30%	-6.94%	7.72%	-5.58%
3 Years (annualised)	6.95%	-3.96%	2.99%	8.43%	4.47%
Inception <sup>1</sup> (annualised)	5.98%	-3.21%	2.77%	7.25%	4.04%

**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) NTA Return is the movement in pre-tax NTA during the period; 4) Total Return is the Income plus NTA 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 cash flows and business models.

**At a share price of \$0.76 at 31 January 2019, CIE yields over 8.2% (net). Historically franking has been 50%, which equates to a gross yield of 9.9%.**

## PERFORMANCE SUMMARY

CIE's investment portfolio was positive over the month of January, with a return of 4.3%, outperforming the broader market. The gain reversed some of the declines we saw late last year. The NTA before tax of the portfolio stood at \$0.893 per share. The rolling 12-month return was -6.94% and the portfolio has achieved a total return since inception of 2.77% pa.

Unfortunately, this strong month wasn't reflected in CIE's share price. Addressing the ongoing share price discount is something to which we are committed. The only way we will achieve this is by maintaining investment discipline and performance, increasing shareholder engagement and by growing our shareholder base. Shareholders can be assured we are working hard in these three areas.

## PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 4.2%, compared with a target cash weight of 5%. We expect to be opportunistic with our investing so that cash may move around this target.

Over the last few months the Company has steadily increased some of its defensive positions, and reduced exposure to stocks which are considered to be in a weak or exposed position either through cyclical or regulatory risk. For example, the portfolio's current exposure to REITs and Utilities, considered two of the most defensive sectors has increased from around 14% at 30 June 2018 to above 22% of the portfolio now.

## MARKET COMMENTARY

Global markets climbed over January, led by the NASDAQ up 9.7%. The US led the world markets higher with the Dow Jones up 7.2% and S&P500 7.9% higher. Although earnings revisions have primarily been on the downside, which indicates lower earnings growth, earnings growth is still at a reasonable level overall. Confirmation that earnings are not under serious decline steadied the market in January.

Global momentum and volatility measures stabilised over the month and markets responded positively. Markets around the rest of the world were positive but not to the same extent as the US. The Japanese, UK and Australian markets increased by around 3-4%.

Sector performance was mixed with the best sectors being Materials, Telecoms and Energy. Although the portfolio does not have any significant overweight exposures to any of these sectors, the performance was still pleasing. Therefore, stock positioning rather than sectoral positioning helped this month.

The worst performing sectors included Banks, Health and Transport. CIE doesn't have significant stakes in these sectors, relative to the index. So again, January was a stock specific story.

## PORTFOLIO OUTLOOK

We are expecting some solid results during the upcoming reporting season. However, as we stated last month, recent share market weakness may see some conservatism by company boards when declaring dividends. Therefore, dividend growth may be lower. We are already seeing some signs of this early in the reporting season.

With the flagged changes to the dividend imputation system under a Labor government, we may see an increase in off-market buy backs (such as BHP & RIO's recent off market buy backs) or even the occasional special dividend to pay out surplus franking credits ahead of any possible changes to legislation being implemented. We will monitor and respond to any such initiatives as they occur.

The Banking Royal Commission has handed the Government its findings into financial services misconduct and we can finally assess the full ramifications of its recommendations. The process has been a painful one for all involved and hopefully some certainty will emerge which will be positive looking ahead.

## NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	31 JAN 2019	30 Dec 2018
NTA before tax	\$0.893	\$0.845
NTA after tax and before tax on unrealised gains	\$0.918	\$0.876
NTA after tax	\$0.900	\$0.866
Month-end closing share price (ASX:CIE)	\$0.760	\$0.790

## GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Communication Services	6.29
Consumer Discretionary	15.05
Consumer Staples	1.46
Energy	6.35
Financials	23.58
Health Care	1.04
Industrials	11.59
Information Technology	2.04
Materials	5.99
Real Estate	15.68
Utilities	6.78
Cash	4.16

## PORTFOLIO CHARACTERISTICS

January 2019	CIE
Dividend yield (gross)	8.18%
Dividend yield (net)	9.90%
Median market cap (\$m)	3,073
Price to earnings ratio	15.00
Earnings growth (%)	3.64
Return on equity (%)	15.40
Beta	0.91

Source: Bloomberg LLP.

## COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of pre-tax 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:	\$92.91 million
Shares on issue:	104.075 million
No. of stocks held:	43

## TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
BOQ	Bank of Queensland Ltd	5.23
BEN	Bendigo & Adelaide Bank Ltd	4.98
TAH	Tabcorp Holdings Ltd	4.77
SGP	Stockland Group	3.22
SKI	Spark Infrastructure Group	2.99
GPT	GPT Group	2.75
CTX	Caltex Australia Limited	2.73
SGR	Star Entertainment Group	2.72
CAR	Carsales.com Limited	2.67
CHC	Charter Hall Group	2.65
		36.22

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