

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

28 February 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	1.74%	0.45%	2.19%	2.48%	2.93%
3 Months	1.77%	2.40%	4.17%	2.53%	4.93%
6 Months	4.85%*	-11.19%	-6.34%	6.22%	-4.97%
1 Year	8.04%*	-11.01%	-2.97%	10.09%	-0.92%
3 Years (annualised)	6.70%	-1.58%	5.12%	8.24%	6.66%
Inception <sup>1</sup> (annualised)	6.52%	-3.02%	3.50%	8.01%	4.99%

<sup>1</sup>Inception date is 13 August 2015. <sup>2</sup>Income Return is the dividends paid 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; <sup>3</sup>NTA Return is the movement in pre-tax NTA during the period; <sup>4</sup>Total Return is the Income plus NTA Return; and <sup>5</sup>Does not consider the individual investors personal tax position.

\* 6 month income includes 3 dividends and 1 year income includes 5 dividends. Moving forward CIE expects to pay one dividend per quarter.

## 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.

**Over the past 12 months, CIE has paid a dividend yield of 6.74%, or 8.52% including franking credits. Dividend yield is calculated as the last four dividends paid over the 12 months to 28 February 2019 relative to the closing share price of \$0.965 at the beginning of the period.**

## PERFORMANCE SUMMARY

CIE's investment portfolio was positive over the month of February, with a return of 2.19%. Since inception, CIE has paid an annual income of 6.52%. The NTA before tax at the end of the month stood at \$0.897 per share. We were pleased to see CIE's discount to NTA moderately reduce over the month.

Sector performance in February was mixed with the best sectors being financials, energy and IT. The worst performing sectors included consumer staples and healthcare. Neither of these two sectors is a significant weight within the portfolio.

## PORTFOLIO COMMENTARY

CIE's cash position at the end of the month was 5.66%, compared with a target cash weight of 5%. We expect to be opportunistic with our investing so that cash may move around this target.

Portfolio activity in February was low as we worked through results season. The position in Magellan Financial was sold down after a strong result. The stock is trading 50% above our entry levels and we continue to take profits.

The regional banks were quite weak over the month, in contrast to the rally we saw in the major banks. CIE's weighting to financials is about 12% compared to around 25% in the broader market.

The best performing stocks over the month included companies that are recovering from weaker prior performances such as IOOF holdings, Viva Energy, Perpetual and Southern Cross Media. We have added to some of these at lower levels.

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## MARKET COMMENTARY

Global markets continued to climb throughout February. Gains were broad-based across all major markets. Although earnings revisions are falling, earnings growth remains at a reasonable level. Macroeconomic indicators suggest a deceleration, but economies are still experiencing positive growth.

Momentum and volatility measures continue to support the markets. The US Fed's softer tone has also been supportive. While we expect markets to recover most of last year's losses, declining global liquidity and earnings revisions may remain challenging.

## PORTFOLIO OUTLOOK

Results season has drawn to a close and the summary, in our view, was that while the results weren't great, they were good enough to satisfy low expectations. Future expectations remain quite low although earnings estimates are seemingly being slowly adjusted downward to match.

At the time of writing 35 of the portfolio's holdings, which represent about 78% of the portfolio by value, have reported results and declared dividends. Of these 35 companies, 19 declared higher dividends, 10 were flat and 6 were lower. The median increase in dividend was 3% and the weighted average increase was 4.7%. Overall, we were satisfied with this result.

Interest rates remain low with Australian 10-year bonds around 2.15%, and economic activity, although slowing slightly, remains positive. The Price to Earnings ratio of the portfolio has reduced over the last 18 months to now be quite attractive, in our view. Indications of inflation remain largely benign giving confidence that the investment outlook remains favourable.

## NET TANGIBLE ASSETS (NTA)

NTA (PER SHARE)	28 FEB 2019	31 JAN 2019
NTA before tax	\$0.897*	\$0.893
NTA after tax and before tax on unrealised gains	\$0.924*	\$0.918
NTA after tax	\$0.900*	\$0.900
Month-end closing share price (ASX:CIE)	\$0.790	\$0.760

\* Ex-dividend

## GICS SECTOR ALLOCATION

GICS SECTOR ALLOCATION	WEIGHT %
Communication Services	6.41
Consumer Discretionary	15.01
Consumer Staples	1.35
Energy	6.93
Financials	22.61
Health Care	1.00
Industrials	10.90
Information Technology	2.03
Materials	6.31
Real Estate	15.23
Utilities	6.56
Cash	5.66

## PORTFOLIO CHARACTERISTICS

February 2019	CIE
Dividend yield (net)	6.74%
Dividend yield (gross)	8.52%
Median market cap (\$m)	3,101
Price to earnings ratio	16.64
Earnings growth (%)	2.36
Return on equity (%)	15.13
Beta	0.89

Source: Bloomberg LLP, Contango Asset Management

## COMPANY FACTS

KEY DETAILS	
ASX code:	CIE
Dividend policy	6.50% of 30 June pre-tax NTA
Target franking	50%
Investment objective:	To distribute 6.5% of 30 June pre-tax NTA per annum while maximising franking credits
Number of stocks:	35 – 50
Target cash position:	5%
Portfolio size:	\$95.06 million
Shares on issue:	104.075 million
No. of stocks held:	43

## TOP 10 PORTFOLIO HOLDINGS

CODE	COMPANY NAME	WEIGHT %
TAH	TABCORP HOLDINGS LTD	4.72
BOQ	BANK OF QUEENSLAND LTD	4.52
BEN	BENDIGO AND ADELAIDE BANK	4.44
SGP	STOCKLAND	2.91
CTX	CALTEX AUSTRALIA LTD	2.84
SKI	SPARK INFRASTRUCTURE	2.82
ASX	ASX LTD	2.81
CHC	CHARTER HALL GROUP	2.77
PPT	PERPETUAL LTD	2.76
GPT	GPT GROUP	2.70
		33.29

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