

# ASX: NSC

## NAOS SMALL CAP OPPORTUNITIES COMPANY LIMITED

ABN 47 107 617 381

NSC generally invests in small-cap industrial companies with a market cap of \$100m-\$1b

## MONTHLY INVESTMENT REPORT & NTA UPDATE

### AS AT 31 JANUARY 2022

#### Net Tangible Asset Value Breakdown

Pre Tax NTA	Post Tax & Pre Unrealised Gains Tax NTA	Post Tax NTA	Share Price	Number of Holdings	Cumulative Fully Franked Dividends	Fully Franked Dividend Yield
\$1.03	\$1.02	\$0.97	\$0.83	10	\$0.1975	6.02%

#### Market Insight

For the month of January, the NSC investment portfolio outperformed the benchmark by +2.49%, producing a negative return of -6.51% compared to the benchmark S&P/ASX Small Ordinaries Accumulation Index which fell by -9.00%, in an extremely volatile month for equity markets. It was a relatively eventful month with a number of significant releases across the NSC investment portfolio. COG Financial Services (ASX: COG) provided a positive trading update for 1H FY22, in advance of its half-year results to be released in February, Step One Clothing (ASX: STP) officially launched its initial range of women's underwear in Australia and the UK, and finally (on 1st February) MaxiPARTS (ASX: MXI) announced a trading update as well as the acquisition of a large private truck parts distributor.

#### Investment Portfolio Performance Monthly and FY Returns\*

	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	FY Total Return
<b>FY22</b>	-0.68%	-0.18%	-0.77%	+4.15%	-2.17%	+3.89%	-6.51%						<b>-2.64%</b>
<b>FY21</b>	+1.53%	+3.17%	-0.09%	+2.38%	+6.19%	+4.25%	+1.05%	+11.30%	+4.51%	6.33%	+6.52%	+0.32%	<b>+58.40%</b>
<b>FY20</b>	-0.18%	+12.91%	+8.10%	+0.17%	-1.80%	-0.57%	+2.50%	-10.15%	-18.50%	-1.65%	+8.22%	+7.77%	<b>+2.59%</b>
<b>FY19</b>	-0.60%	+4.07%	-1.34%	-7.61%	-3.04%	-3.21%	+4.16%	-3.88%	+1.14%	+0.69%	-5.17%	+1.33%	<b>-13.29%</b>
<b>FY18</b>						+1.11%	-0.93%	-0.57%	+0.25%	-3.35%	-1.16%	+1.24%	<b>-3.44%</b>

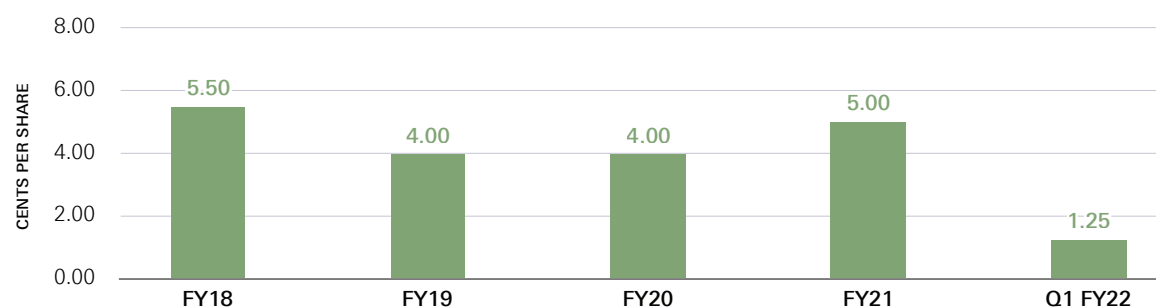
\*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Performance has not been grossed up for franking credits received by shareholders.

Only a few months after announcing a rather technical divestment, MXI slightly surprised us and announced the acquisition of privately owned truck parts distributor Truckzone Group. We believe this acquisition benefits MXI in two key ways, the first of these being increased scale and a more diversified store network; and secondly it gives MXI a wholesale business with access to Japanese aftermarket auto parts which should be a significant contributor to future growth due to attractive margins (which we believe has historically benefitted listed competitor Bapcor). The acquisition was funded via a \$25 million equity raising which should leave the business in a net cash position and provide plenty of financial flexibility to initiate its organic store rollout as well as acquire smaller operators that in our view should give MXI a clear strategic advantage. On a full year run rate we expect the business to report a revenue base in excess of \$200 million with an EBITDA margin >10%, along with the potential to grow this closer to 14-15% over time. The company also has significant tax losses which should assist in maximising free cash flow generation going forward.

STP formally launched its first women's underwear product, which we believe will provide the company with a significant runway of growth for the foreseeable future, particularly given the strong initial take-up. For context, the women's underwear market is worth circa 2 times the male underwear market which is worth ~\$590 million in Australia. STP currently has a 6% market share of the men's underwear market domestically, so if they can capture a 3% market share of the women's market this has the potential to almost double their current revenue base. Based on initial feedback and stock availability the product has

#### Fully Franked Dividend Profile (Cents Per Share)

NSC aims to deliver shareholders a sustainable growing stream of dividends, franked to the maximum extent possible.



Conviction. Long Term. Aligned

NAOS

#### Investment Beliefs

Value with Long Term Growth

Quality over Quantity

Invest for the Long Term

Performance v Liquidity Focus

Ignore the Index

Pure Exposure to Industrials

Environmental, Social and Governance (ESG)

Management Alignment

Constructive Engagement



## Market Insight Continued

been very well received with most sizes and colours sold out after just 2 weeks in both the UK and Australian markets. As STP increases their women's range over the next few months this will provide a useful indicator as to whether the sales trajectory of the women's range will follow that of the men's product, which has grown to ~\$70 million of sales in under 5-years.

COG also provided a trading update for its upcoming 1H FY22 results. Pleasingly, the company expects NPATA to be \$10.4 million which compares favourably to the \$8.4 million generated in 1H FY21, excluding the impact of government grants and subsidies. Importantly the quality of the earnings has increased dramatically with the broking and aggregation division generating \$6.9 million of NPATA compared to the lending division which generated \$3.8 million. The funds management business of Westlawn is included within the lending division meaning the earnings generated from pure finance funding are even lower than the \$3.8 million stated. Looking forward, COG expects the two recent acquisitions to contribute significantly in 2H FY22 and the company continues to consider acquisitions that fit their strategic direction. We believe that at the full-year result COG should post a very strong funding position which will highlight how much capital it has available to pursue internally funded acquisitions.

## Core Investment Portfolio Examples



**Move Logistics Group**  
NZX: MOV

Move Logistics Group is a logistics operator based in New Zealand specialising in both international and domestic freight and warehousing logistics. Move is one of New Zealand's largest logistics companies with 50 sites across the country servicing 3,500+ customers. The Group is expanding its operations into coastal shipping and is looking to support the growth and development of hydrogen within the economy.



**Eureka Group**  
ASX: EGH

Eureka Group is a provider of quality and affordable rental accommodation for independent seniors within a community environment. EGH owns 30 villages and manages a further 9 villages with a total of 2,147 units across Queensland, Tasmania, South Australia, Victoria and New South Wales.



**Big River**  
ASX: BRI

Big River is a large distributor of building material products as well as a manufacturer of high value niche timber products. Big River is an integrated Australian timber products business that operates across the full continuum from procurement of raw materials through to sale of finished products to end users which are then distributed across 21 sites across Australia and New Zealand.

## Investment Portfolio Performance

	1 Month	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Inception (p.a.)	Inception (Total Return)
<b>NSC Investment Portfolio Performance*</b>	-6.51%	-1.98%	+28.67%	+13.80%	+14.17%	+6.98%	+32.46%
<b>S&amp;P/ASX Small Ordinaries Accumulation Index</b>	-9.00%	-4.61%	+6.65%	+6.01%	+10.12%	+7.06%	+32.89%
<b>Performance Relative to Benchmark</b>	+2.49%	+2.63%	+22.02%	+7.79%	+4.05%	-0.08%	-0.43%

\*Investment Portfolio Performance is post all operating expenses, before fees, interest, taxes and capital raising costs. Returns compounded for periods greater than 12 months. Performance has not been grossed up for franking credits received by shareholders. Inception performance (P.A. and Total Return) is from 1 December 2017.

## Key Metrics – Summary Data

Weighted Average Market Capitalisation of the Investments	\$193.6 million
Cash Weighting	0.20%
Standard Deviation of Returns (NSC)	18.04%
Standard Deviation of Returns (XSOAI)	19.00%
Downside Deviation (NSC)	11.23%
Downside Deviation (XSOAI)	12.99%
Shares on Issue	147,639,686
NSC Directors Shareholding (Ordinary Shares)	2,403,933
NSC Options Closing Price (ASX: NSCOA)	\$0.038

## NAOS Asset Management Giving Back

NAOS Asset Management Limited, the Investment Manager, donates approximately 1% of all management fees to the following charities.



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**Important Information:** This material has been prepared by NAOS Asset Management Limited (ABN 23 107 624 126, AFSL 273529) (NAOS) as investment manager of the listed investment company referred to herein (Company). This material is provided for general information purposes only and must not be construed as investment advice. It does not take into account the investment objectives, financial situation or needs of any particular investor. Before making an investment decision, investors should consider obtaining professional investment advice that is tailored to their specific circumstances. Past performance is not necessarily indicative of future results and neither NAOS nor the Company guarantees the future performance of the Company, the amount or timing of any return from the Company, or that the investment objectives of the Company will be achieved. To the maximum extent permitted by law, NAOS and the Company disclaims all liability to any person relying on the information contained herein in relation to any loss or damage (including consequential loss or damage), however caused, which may be suffered directly or indirectly in respect of such information. This material must not be reproduced or disclosed, in whole or in part, without the prior written consent of NAOS.

## Our Team

### Chairman

Trevor Carroll  
(Independent)

### Directors

Warwick Evans  
Sebastian Evans  
David Rickards OAM  
(Independent)

### Chief Investment Officer

Sebastian Evans

### Portfolio Managers

Robert Miller  
Brendan York

### Senior Investment Analyst

Jared Tilley

### Associate Investment Analyst

Nelson De Mestre

### Chief Financial/Operating Officer

Richard Preedy

### Head of Legal and Compliance

Rajiv Sharma

### Marketing & Communications Manager

Angela Zammit

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