

Monash Absolute Investment Company Limited

**Monash Absolute Investment Company Limited (ASX: MA1)
November 2018 End of Month Update**

5 December 2018

In the interests of keeping the market fully informed of performance on a timely basis, we release a preliminary estimate of the Pre-Tax Net Tangible Asset Backing per share. It is only a guide, the official NTA will be released later in the month.

We estimate that as at 30 November 2018 the NTA Pre-Tax was \$0.9393.

Company Strategy

The Company is benchmark unaware, style and stock size agnostic, both long and short, and only invests in compelling opportunities. In keeping with the Company's absolute return objectives, if the investment manager cannot find stocks that meet the very high return hurdle requirements, the Company will preserve that capital in cash at bank.

Monthly Commentary

For the month of November, the pre-tax NTA was down by -0.54% (after fees) compared to the S&P/ASX200 down -2.21% and the Small Ords which was down -0.37%.

The portfolio has beaten the market over the financial year to date, being down by -3.51% (after fees) compared to -6.72% and -8.94% for the two indices, respectively.

Despite a fluctuating market, the portfolio had a quiet month for stock specific news flow. The two main exceptions were G8 Education (ASX: GEM) and Coca-Cola Amatil (ASX: CCL) both of which contributed positively.

G8 was up 36% for the month, following a trading and strategy update that highlighted improved occupancy. This is being driven by the settling down of the Child Care Subsidy and some operational initiatives.

On the other hand, CCL is a short position. This means that it is a stock we have borrowed in order to sell, and we benefit if its share price falls.

Company at a Glance 30 November 2018

ASX Code	MA1
Portfolio Size	\$41.6m
Share Price	\$0.785
Shares on Issue	44.3m

Estimated NTA (unaudited) 30 November 2018

Estimated NTA Pre Tax	\$0.9393
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Return Estimate to 30 November 2018

	NTA Pre Tax
1 Month	-0.54%
3 Months	-6.04%
6 Months	-2.51%
FYTD	-3.51%
1 Year	-5.05%
Since Inception p.a. (April 2016)	-1.77%

Portfolio Structure 30 November 2018

Outlook Stocks (Long)	18 Positions	64%
Outlook Stocks (Short)	1 Position	-2%
Event, Pair and Group (Long)	7 Positions	39%
Event, Pair and Group (Short)	1 Position	-6%
Cash		5%
TOTAL		100%
Gross Exposure		112%
Net Exposure		95%

For more information about the Company and the strategy, please refer to the Monash Investors website at www.monashinvestors.com. You can also [follow us on Livewire here](#) or subscribe to our updates here

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CCL also had a trading update during November, but it reported bad news. The company disclosed that FY19 will be another “transitional” year – a euphemism for flat to down earnings. This has been driven by lower revenues and higher costs than analysts were expecting. As a result CCL fell 13% for the month, which benefitted the portfolio.

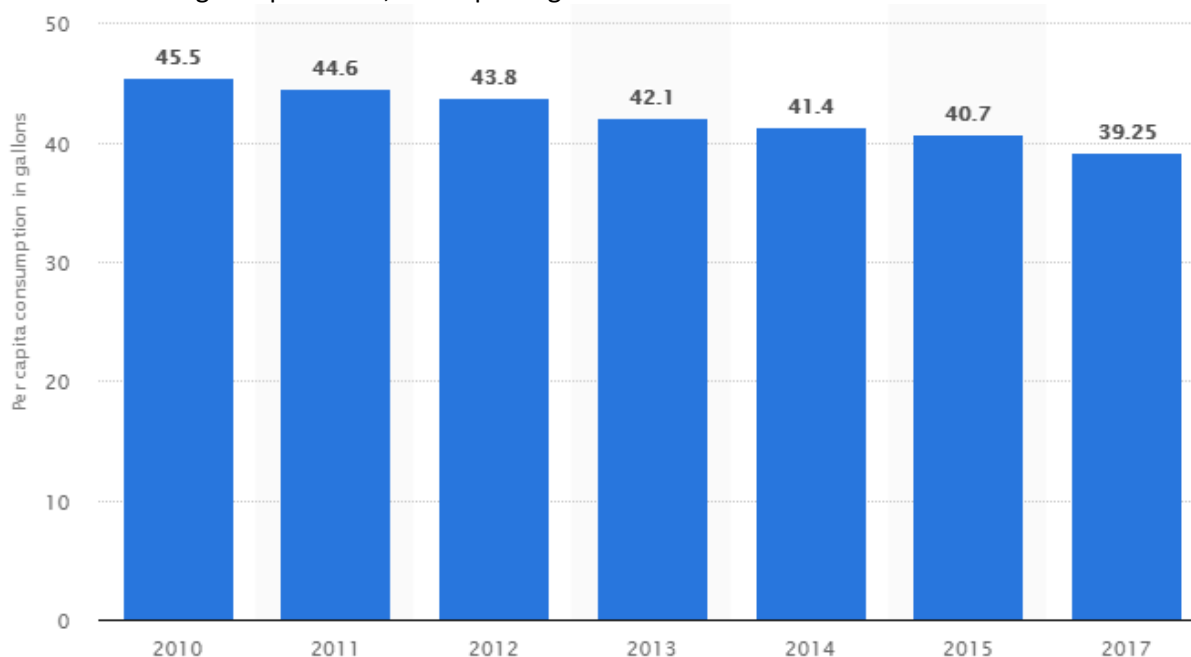
We have been short Coca-Cola Amatil for some time. Here’s why.

Coca-Cola Amatil (ASX: CCL) has an exclusive franchise granted by The Coca-Cola Company (NYSE: KO) to sell their products in Australia, NZ, Fiji and a large part of Indonesia. KO owns 30% of CCL, it sells CCL the syrup, provides some marketing support, and CCL does the rest. What could go wrong?

1. **Consumers are trying to cut down sugar** and sugar substitutes in their drinks.

The chart below shows a consistent per capita decline in US soft drink sales. In 2017 sales of US Soda drinks fell for their 13th year in a row, to their lowest level since 1985, when Beverage Digest (a trade publication) began tracking consumption trends.

The trends are much the same in Australia, with CCL itself recently stating that changing consumer preferences, and concerns about sugar in particular, are impacting sales.



Data visualized by  **tableau**

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2. **Coke’s water business is struggling** too, with CCL recently noting the proliferation of private label water that is undercutting their premium Mount Franklin brand, and crowding it out from supermarket shelves.

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3. **CCL is complaining of a persistently deflationary retail environment**, which makes it hard to recover lost volumes and increasing costs through price rises.
4. **There are increasing regulatory imposts** including container deposit schemes. CCL notes that their near term earnings will continue to be impacted by the implementation of container deposit schemes in NSW, Queensland, ACT and Western Australia.
5. **Indonesia isn't working out for them** with more capex required, weaker than expected macro-economic conditions, and lower than expected consumer spending in beverages. CCL stated that in Indonesia in 2018 so far there has been a beverages value decline of 1% and a volume decline of 2%.
6. **The business has been struggling for years**, and it's getting tougher. Following an EPS decline of 37% for the 3 years 2012 – 2014, CCL set out to achieve the modest target of mid-single digit EPS growth. It was able to do this for the next 3 years with an EPS growth averaging 4%pa. However, here we are in 2018 and now even these modest growth targets cannot be met with the EPS likely to decline in both 2018 and 2019.
7. **The 30% ownership of CCL by KO remains a long standing conflict of interest**. KO sells syrup to CCL, and the more syrup it sells and the higher its price, the better off KO is. With its 30% shareholding KO is effectively able to control the board if it wishes. At a management level, CCL is part of the Coca-Cola system, with staff moving between KO and other Coca-Cola bottlers such as CCL.
8. **It's expensive**. CCL trades on an FY18 PE of 16x with a declining earnings outlook.
9. **It's dividend yield of 5.5% is reliant on a payout ratio of 85%**. With any significant fall in earnings its dividend level will be at risk.
10. **It's not a crowded short trade**, with only 3.4% of CCL's capital shorted.

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