

# THORNEY OPPORTUNITIES LTD

ACN 080 167 264

9 June 2016

Dear Shareholder,

Since I last wrote to you Thorney Opportunities Ltd (TOP), your company, has passed a number of significant milestones.

As reported to the ASX on 6 June 2016, Thorney's Net Tangible Assets per share (NTA) as at 31 May 2016 was 61.6 cents per share.

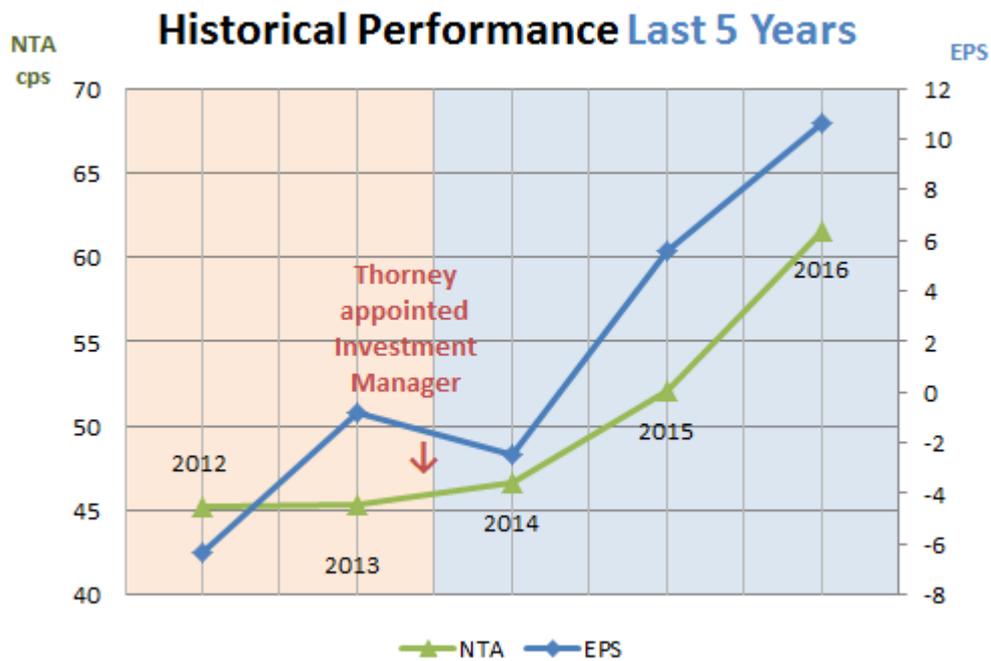
This is a record NTA level and it is also the first time that the value of TOP's net assets has exceeded \$100 million.

Since the beginning of 2015, the TOP net tangible assets (NTA) per share has increased by approximately 26.2% strongly outperforming the broader market indices. For example the ASX 200 Index has decreased by 0.6% over the same period.

We are delighted with this outperformance which shows the value of TOP's investment philosophy and the strength in our investment team.

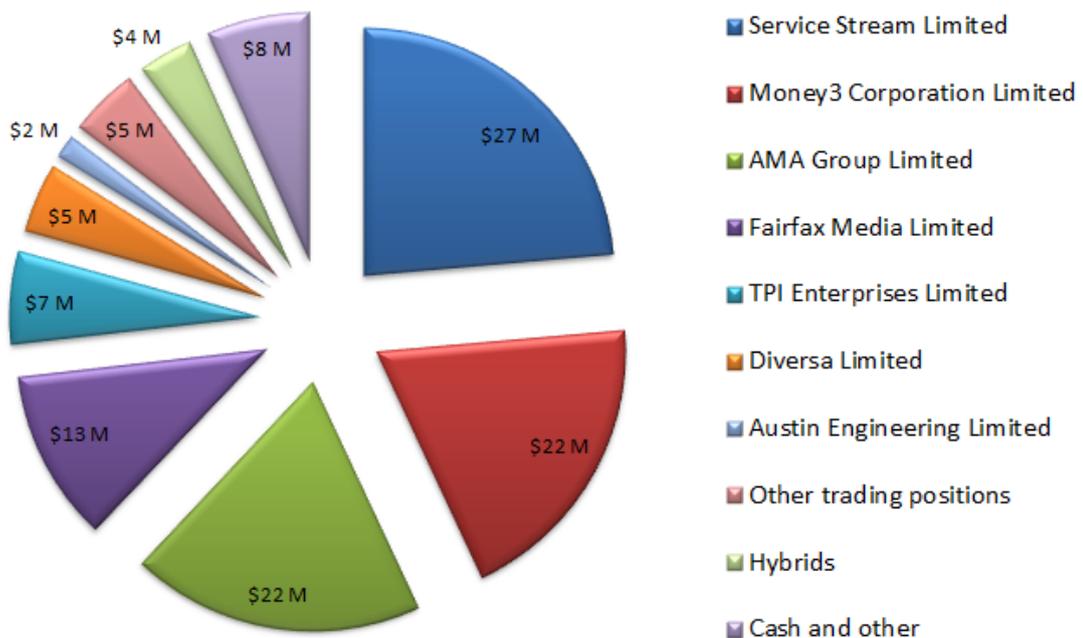
While the TOP share price has continued to increase slightly to better reflect the underlying value in our investment portfolio, it is still trading at a bemusing discount to NTA. At the time of writing the TOP share price was 54 cents, a 11.5% discount to the NTA as at 31 May 2016.

We continue to believe that with ongoing outperformance over time, the market will re-rate TOP's share price to bring it closer to the NTA.



The makeup of the TOP portfolio at time of writing, based on total assets, can be illustrated as follows:

### TOP Assets Under Management - June 2016



In this update I intend to concentrate on a few key highlights and developments within the portfolio and at TOP in the past few months.

I will provide more detailed summaries of the performance of the key holdings in the TOP portfolios in my next newsletter, after the full year reporting season.

### **Service Stream Limited (SSM)**

TOP's strong NTA growth referred to above has been driven by a number of factors including the continued surge in share price of one of our core holdings, Service Stream Limited. (SSM).

TOP holds 9.1% of SSM and its associate, Thorney International Pty Ltd, holds 20.5% representing a combined relevant interest of 29.6% in the Company. At the time of writing SSM's share price was trading at 83.0 cents after making a special 5 cents a share capital return to shareholders and undertaking a share consolidation. This compares to a share price of around 20 cents in 2014 when TOP anchored a recapitalisation of the Company. We continue to be optimistic about the prospects for SSM. It has a strong cash surplus balance sheet and increasing revenues and earnings.

We remain very supportive of the way the new management team has been running the business.

### **Diversa Group Limited (DVA)**

DVA is another TOP core holding which has seen strong share price growth this year. Since January 1, 2016, DVA's share price is up 47%. TOP has an interest in DVA of just over 12%.

DVA provides specialist superannuation trustee and administration services to corporate trustees, specialising in small to medium sized funds. DVA's funds under advice/trusteeship have grown very strongly. Funds under trusteehip, management and administration (FUTMA) have grown from \$1.5b in July 2014 to \$8.1b in March 2016.

Last year TOP backed a recapitalisation of DVA at 44 cents a share and at the time of writing DVA shares were trading at about 70 cents.

DVA operates in the continually growing macro environment of superannuation and Thorney believes DVA's strong management team and business model will continue to see it deliver growth in the years ahead.

We are proud of this investment which is a prime example of the way the Thorney investment team can identify little known "jewels" and support them to dramatically enhance shareholder value.

### **Money3 Corporation Limited (MNY)**

TOP, holds 5.5% of MNY and its associate, Tiga Trading Pty Ltd, holds 5.5% representing a combined relevant interest of about 11% in the Company.

MNY recently announced a new \$20 million funding facility with both TOP (\$3m) and its associates (\$4m) participating for some \$7 million. Together with existing bonds this will now give TOP and its associates a combined holding of more than \$22 million of bonds, as well as listed options in MNY.

The newly issued bonds have first ranking security. Money raised will be used to fund MNY's very strong growth in the secured automotive loans sector. It is testimony to MNY's strong growth and cash flow that it was able to repay its existing Westpac loan facilities ahead of schedule, freeing up security.

As we have stated previously, MNY suffers from a perception that it is a small credit consumer lending company when this aspect of its business represents less than 20% of MNY's total loan book. That percentage is shrinking even further with the strong growth in secured automotive lending which now represents more than 70% of the total value of all loans made by MNY.

TOP believes that once the market better understands MNY's sound business model and strong financial performance it will significantly re-rate the stock.

### **Austin Engineering Group Limited (ANG)**

TOP, along with its associates, Thorney Holdings Pty Ltd and Thorney International Pty Ltd, has a relevant interest of over 19% in ANG.

While we have been supportive of aspects of the ANG business model we admit to having been too optimistic about the timing of any upturn in demand for ANG's mining products and services due to the continued downturn in global mining activity.

Last month ANG announced a significant recapitalisation to raise almost \$30 million to help it refinance its debt facilities, strengthen its balance sheet and better enable it to weather the downturn in global mining. Notwithstanding its disappointment in ANG's performance, TOP is participating as lead underwriter in the raising. TOP pushed for (and is therefore supportive of) recent board changes and we were pleased to see ANG recently announce that it sees some signs of improved demand, although there is a long way to go.

## Fairfax Media Limited (FXJ)

TOP, along with its associate Thorney Investment Group has an interest in more than 50 million shares and options in FXJ representing more than 2% of the Company. We have been following the Company closely for some time and recently had discussions with senior management of whom we are supportive.

Contrary to some observers of Fairfax, we believe that notwithstanding recent share price gains, the current equity market valuation of the Company excessively discounts the underlying value of its core business portfolio.

We are very positive about the Company's recently announced proposal to investigate demerging its New Zealand assets into APN News & Media Limited's New Zealand business NZME but believe there is still much more the Company can do to add value for shareholders while continuing (and hopefully accelerating) its move to a digital platform.

We have told management we are in favour of a further \$100 million share buyback program as a major, value enhancing part of its capital management strategy. We also believe the Company should more aggressively pursue further divestments of non-core assets either through sales, spin offs or other structures and potentially use the cash raised to add to its already impressive balance sheet and or pursue an even more substantial buyback.

We also think FXJ should invest further in its rapidly growing and innovating profit powerhouse, Domain, in order for it to achieve its full potential.

In short, while management led by Greg Hywood has made significant progress, we believe there is still considerable value to be created by continuing and building on achievements to date. We will continue to watch the Company and seek to engage with senior management.

## Potential TOP Technology LIC

As I mentioned in my last update TOP has been investigating the launch of a new Listed Investment Company (LIC) to focus on technology-based investment opportunities.

We have been "hastening slowly" on this initiative not least because we have been watching developments in technology valuations globally. We believe with recent pull backs in value the climate for such a fund has improved and we expect to be announcing details of the new LIC in coming weeks.

TOP shareholders will be given every opportunity to invest in the new LIC.

## Conclusion

I hope that you have found this update useful. I remain enthusiastic about TOP's future prospects and continue to appreciate your support and encouragement.

I look forward to communicating with you again shortly.

Best regards,

A handwritten signature in blue ink, appearing to read 'Alex Waislitz', with a long horizontal stroke extending to the right.

**Alex Waislitz**  
Chairman