

THORNEY OPPORTUNITIES LTD

ACN 080 167 264

20 June 2019

Dear fellow shareholder

Welcome to another **TOP Chairman's Update**.

With only a week left until the end of the 2018/19 financial year, I wanted to share a few thoughts about one of the main themes currently influencing the TOP management team's investment strategies and to take a brief look forward to 2019/20.

Firstly, however, I'm pleased to report that the TOP portfolio continues to perform well.

TOP's most recent pre tax, Net Tangible Assets (NTA) per share result for May, released on June 11 showed an increase of 3 cents a share to 85 cents a share from the April result. The lift in NTA was yet another example of the inherent strength of TOP's core portfolio and its ability to continue to deliver solid growth in the medium to long term.

At the time of writing many of TOP's key holdings were trading at prices above their May 31 levels and if this continues, we expect TOP to close out the financial year on a pleasing note.

One of the reasons for TOP's continued strong NTA performance since inception has been our focus on the key thematic influences on both the Australian and international economies. Once a thematic is identified and understood, we seek to uncover undervalued and overlooked companies operating in the space and work with them to unlock value.

A key thematic that we have been focused on for some time has been infrastructure.

In my last communication to shareholders, I mentioned that regardless of the outcome of last month's Federal Election the level of infrastructure spending by both Federal and State governments would be likely to continue unabated for the foreseeable future.

Since then, if anything infrastructure has become even more of a priority. This was underscored by the Queensland Government recently clearing the way for the controversial Adani mine project to proceed through the approval of the company's most recent environmental plan. There will also continue to be a large number of significant multi billion dollar mining and oil and gas projects undertaken in Australia for many years.

Just as importantly, the top 10 non-mining related civic infrastructure projects currently underway in Australia alone account for more than \$100 billion in spending including major road, rail, airport and communication projects. Many billions of dollars more worth of additional new infrastructure projects were flagged in recent State Government budget announcements.

All this points to significant ongoing revenue streams for both large and small companies exposed directly and indirectly to the infrastructure sector.

The TOP management team has long been aware of the impact that Australia's infrastructure boom is having and has invested in a number of companies with exposure to the sector.

An excellent example of TOP's exposure to the infrastructure boom is one of our largest portfolio positions, Service Stream (SSM). As most TOP shareholders know, SSM delivers design, build, installation and support services to the mobile and fixed communications, electricity, water and gas sectors.

SSM, continues to grow strongly both through acquisition and the securing of new contracts. At the time of writing its share price had hit new highs of more than \$2.70.

SSM has been an outstanding performer for TOP over the last five years since we helped drive and substantially anchor a capital restructure of the company at around 20 cents a share.

With the SSM share price now trading at some 13 times our initial entry level, TOP has recouped its investment cost many times over. While we have recently trimmed our exposure for portfolio balancing purposes, we continue to hold a very substantial stake in SSM. We believe that with the company's strong management team and its exposure to the infrastructure boom SSM can keep delivering for the foreseeable future.

While SSM stands out and its success is well recognised, TOP has invested in a number of other companies which are perhaps less visible but which we believe are well priced and have great potential to benefit from the infrastructure boom.

Once such company is Decmil (DCG). Decmil has a 40 year history in delivering integrated construction and engineering services across a wide range of infrastructure, resources and renewables sectors. In the past few months alone DCG has announced that it has been awarded several new road upgrade and wind farm projects totalling in excess of \$250 million, underscoring not only the amount of activity going on around Australia but also the growth potential of well run companies exposed to the sector. TOP has been building its position in DCG and we have high hopes for its medium term outlook.

Southern Cross Electrical Engineering (SXE) is another company operating in the infrastructure space which we believe has a bright future and in which we have also been increasing our stake. SXE was established in 1978 and supplies electrical instrumentation, communication and maintenance services to projects around Australia. Like Decmil, SXE has been awarded several new contracts in recent months and has the potential to deliver strong growth.

As its name implies MMA Offshore (MRM) services the offshore oil and gas industry with a fleet of some 30 vessels in Australia and overseas. While MRM has seen difficult times in the past, there has been a lot of capacity taken out of the global industry and MRM has made management changes and restructured to ensure it is better financed and more competitive. The company is reporting increased activity and utilisation rates in line with global industry pickup and we believe it is poised to deliver better results this year and next.

Cooper Energy (COE) is an oil and gas explorer and developer which is building energy capacity particularly in South East Australia and the East Coast. Potential gas supply shortages and high price forecasts for gas supplies on the Australian East Coast have been well reported. Through its Sole gas field in the Gippsland Basin, Cooper Energy is well placed to be a new source of high demand gas for many years to come.

I hope this short note has given you insight into just a few of TOP's "infrastructure boom exposed" holdings.

We're excited by the medium to long term outlook for this sector and believe these and the other well researched, high conviction stocks we hold in the TOP portfolio will help ensure we continue to deliver solid outperformance for our shareholders over time.

I hope your financial year ends well and I look forward to providing you with a more comprehensive update after the conclusion of the 2018/19 profit reporting season.

Best regards



Alex Waislitz
Chairman