



## **Breakout in gold is making Ramelius cheap: Tribeca; Fundie Q&A**

Australian Financial Review

April 5, 2024 Friday

Print & First Editions

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**Section:** MARKET WRAP; Pg. 21

**Length:** 716 words

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### **Body**

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Simon Brown is co-portfolio manager of Tribeca's Smaller Companies Strategy in Sydney. The firm oversees around \$3.3 billion in assets.

Which company disappointed you the most in the latest reporting season, and why do you still own it?

Land and marine transport operator Kelsian was punished during results season on the back of a material bottom-line earnings miss versus market expectations, while reported cashflow was low and debt higher. The dreaded trifecta!

At its essence, the company's earnings should have infrastructure-like qualities, with the majority of earnings from operating public and private sector transportation services which are contracted and relatively stable, while having inflation protection on costs.

It is yet to hit full operating cadence post the disruptions from the pandemic and workforce shortages, resulting in a shortage of drivers and uncontracted overtime payments that aren't covered by pass-through mechanisms.

An improvement in labour availability, as is being reported, should flow through the better margins. It would mean Kelsian is a bargain buy at current levels in our view.

Which stock in the portfolio do you think is the most undervalued?

Management at gold producer **Ramelius Resources** have done a great job curating a strategy that leverages their existing mill infrastructure by adding nearby deposits through bolt-on mergers and acquisitions.

The stock is cheap on traditional miner metrics. It has a price to net present value of 0.75 times and, with the recent multi-year breakout in gold prices, it provides further tailwinds to valuation. We see material upside from current share price levels.

What is your take on small-cap investing in the current economic environment?

## Breakout in gold is making Ramelius cheap: Tribeca Fundie Q&amp;A

After two years of underperformance versus the broader S&P/ASX 200 Index, small caps have begun to outperform in 2024. Margins have been impacted by higher operating costs, with small companies generally less well-equipped to pass these through, affecting earnings.

Furthermore, small caps have greater exposure to the cyclical nature of the domestic economy, with less offshore earnings that benefit from currency translation.

With inflation moderating and the local interest-rate cycle having peaked, we feel small-cap growth should once again shine, which is one of the main attractions of the asset class.

What's a stock you like that (most) people haven't heard of?

Eureka Group operates a pure play, specialist strategy of providing affordable seniors rental accommodation across Australia.

Eureka services the growing ageing population who are under-funded for retirement and highly reliant on the government pension assistance that underpins their revenue.

This is an important segment, with 57 per cent of Australia's 4.7 million 65-plus year olds relying on the pension as their primary source of income. The opportunity for sector consolidation in this area is large, with Eureka the scaled player in a highly fragmented market and the company currently pursuing avenues to unlock ways to speed up mergers and acquisitions. While it trades at a 16 per cent premium to net tangible assets, our view is that the NTA is potentially conservative with cap rates of around 8.3 per cent moving lower over time as investors grow more comfortable with the model.

Also of note is the recently received scrip-based takeover proposal from ASX-listed Aspen Group and the subsequent acquisition of just under 20 per cent of shares by a third-party corporate entity.

What piece of advice/or anecdote influenced your investing approach?

David Aylward, who started the small-cap fund that I co-manage, has been a mentor and imparted to me early on not to overestimate the level of analysis done by the market.

It is so true, particularly once you come down in size from the top 20 or 30 largest stocks.

For those willing to put in the time to do the meetings, collate the insights and crunch the numbers, I've found there are always opportunities out there to make money.

What's your favourite local bar or restaurant?

North Bondi RSL belies its cheap and cheerful nature with one of the best views in the world. I go for the chicken parmigiana.

Any podcasts or shows you'd recommend?

I'm a college sports fan. Swamp Kings on Netflix is a great insight into the college football fanaticism in the US.

**Load-Date:** April 7, 2024