

Thomas Kertapati, Investment Analyst– SMID Holding Update

Last quarter was driven by concerns of high inflation on globally traded goods, higher wage demand and higher than expected interest rate rises as central banks looked to curb demand.

Collins Foods Ltd

Collins Foods Ltd, runs the largest KFC franchisee operator in Australia. At the end of June they reported their full year earnings which was well ahead of consensus and the share price rallied 11.5% on the day after having being sold off 15% since the start of the quarter.

The company's shares were sold off in the first half of the year due the market reacting early to inflationary concerns. Management have said while their full year results were quite strong, they highlighted that in the next 6 months they would incur higher than expected cost pressures from higher wages and key ingredients such as cooking oil which is in severe shortage.

Although they have locked in their chicken supply costs at favourable pricing, they had to provide some concessions to their suppliers who have been struggling to deliver supplies at a profit. Collins Foods has already lifted prices 3 times this year but expect the overall increases to be lower than their operating costs. They expect operating margins to be 1%-2% lower in order to grow market share vs their quick service restaurant competitors.

Considering all these short-term risks, we continue to hold the position, with the expectation that the company continues to beat its competitors in a tough economic environment. They company's balance sheet remains strong, and their borrowings are adequately hedged against rising interest rates.

Pro Medicus

Pro Medicus, a radiology software business, have remained largely unimpacted this financial year from any recent inflationary cost pressures. In the June Quarter, the company recently signed 2 large long-term deals with Inova Health and Allina Health in the USA.

Pro Medicus also renewed existing long-term customers WellSpan and Sutter Health in the June quarter. Both existing customers renewed at much more than they did 7 years ago, with the new contracts indicating price increases of roughly ~7% per annum. These announcements give us confidence that the company is on track to continue growing their net profit at over 25% per annum over a medium time horizon.

Considering these positive announcements, the company's share price finished down 15% for the June quarter as the market has increased the required returns along with other global tech peers as interest rate expectations have increased.

We continue to hold the shares of Pro Medicus due to their ability to grow earnings far ahead of inflation and they have a high-quality balance sheet which has plenty of cash and no long-term debt. The company also has pricing power and with EBITDA margins over 70%, it can attract the best data scientists & medical experts to help continue developing their intellectual property.

Contact

Visit our website: www.infinityassetmanagement.com.au



Australian Equities
Finalist
2020 IMAP MANAGED ACCOUNT AWARDS



Multi Asset Class
Winner
2020 IMAP MANAGED ACCOUNT AWARDS



Australian Equities Small Cap
Finalist
2020 IMAP MANAGED ACCOUNT AWARDS

This publication was issued by Viridian Financial Group (Viridian) and is current as of the 4th of August 2022. The material contained in this publication is an overview or summary only and it should not be considered a comprehensive statement on any matter nor relied upon as such. Information in this publication that has been provided by third parties has not been independently verified and Viridian is not in any way responsible for the accuracy or completeness of, or endorses, that information. To the maximum extent permitted by law: (a) no guarantee, representation or warranty is given that any information or advice in this publication is complete, accurate, up to date, error, or fault free or fit for any purpose; and (b) no member of Viridian is in any way liable to any person (including for negligence) or otherwise for any loss or damage arising as a result of any reliance upon such information. This information may be regarded as general advice only and does not take into consideration individual circumstances. Accordingly, investors should consider the appropriateness of any general advice provided by Viridian, having regard to personal objectives, financial situation and needs before acting on it.

Where the information relates to a particular financial product, you should obtain and consider the relevant product disclosure statement before making any decision to purchase that financial product.