

## Samuel Terry Absolute Return Fund – April 2017 monthly report

The Fund's performance (Founder units, net of fees) and those of the Australian All Ordinaries Accumulation Index and the MSCI World Equities Index, are as follow:

To 30 April 2017	STAR	All Ords	MSCI (\$A)
1 month	-4.3%	0.8%	3.5%
3 months	-2.5%	6.1%	7.0%
1 year	22.0%	16.6%	17.2%
3 years (%p.a.)	29.5%	7.4%	13.1%
5 years (%p.a.)	25.2%	10.6%	16.6%
7 years (%p.a.)	25.4%	7.5%	11.6%
10 years (%p.a.)	15.4%	4.0%	5.1%
Since inception on 1 Nov 2003 (%p.a.)	15.1%	9.0%	7.1%

The main reason for our poor performance was a 21% drop in **Kangaroo Island Plantation Timbers (KPT)**, which represented 27% of the Fund at month-end.

The reason for the fall was that KPT announced a \$33m equity raising at \$2.00, 21% below last month's price. This was necessary to enable KPT to complete the acquisition of the other major timberland owner on the island.

We believe that this transaction is a great deal for KPT and will transform the company from a small timber grower to a large, low cost sustainable timber grower and exporter. Furthermore the company is now fully funded to project completion - i.e. KPT has the capital to build a wharf and begin harvesting, *once it receives government approval*. The attached note describes what happened in more detail.

Elsewhere, we continued buying more of some of our existing holdings.

The Fund's net asset value was \$ 72m or \$2.5532 per Founder unit and \$10.3159 per A Class unit at month end. 26% of the Fund was in \$A cash. It owned securities issued by 21 companies.

Fred Woollard and Nigel Burgess  
9 May 2017

*Samuel Terry Asset Management Pty Limited (AFSL 278294) does not guarantee the repayment of capital or any particular rate of return from the Trust. Past performance is no guarantee or indication of future performance. The unit price can go down as well as up. Investment returns have been calculated in accordance with normal industry practice utilising movements in the unit price and assuming reinvestment of all distribution of income and realized profits. The above report does not take into account a reader's investment objectives, particular needs or financial situation. It is general information only and should not be considered as investment advice and should not be relied on as an investment recommendation.*

## **Kangaroo Island Plantation Timbers (KPT)**

### **Update**

During April our largest investment, Kangaroo Island Plantation Timbers (KPT), successfully completed a large capital raising which enabled it to settle the purchase of the land and forests managed by New Forests, the other major timber grower on Kangaroo Island.

We participated in the equity raising at \$2.00 per share, a 21% discount to the last sale price, because we believe that the purchase of the New Forests estate will add substantial value to the company while reducing the risks associated with the business. The investment is now supported by the quality of its timber estate, attractive asset values and the potential for substantial earnings once the export operations are established.

Kangaroo Island has proved to be one of the best places in Australia to grow Eucalyptus hardwood, based on achieved growth rates. We are confident that KPT is in a position to become a high quality, low cost timber company generating returns from its land, timber and export infrastructure.

### **Future returns**

Share price growth from here will not be as spectacular as it has been in the past. But we now have a more mature investment with plenty of potential to add to our returns over the next two or three years

- Prior to the acquisition KPT's Net Asset Value (NAV) was \$2.13 per share. Management believe, based on the Geddes Management report of Feb 2017, that the New Forests' estate is worth double the purchase price. Under this scenario KPT's revalued NAV would be above \$3.00 per share.
- KPT has the capacity to earn sustainable perpetual EBIT of over \$20m pa within a few years, once a port at Smith Bay is approved and built. This earnings stream is likely to be worth well over \$200m, meaning that KPT shares have potential upside of well over \$3.50 within a few years.
- Earnings will benefit from additional users of the future port including other timber growers, cruise liners, grains exporters, fuel importers etc.
- Growth potential may include the expansion of the timber estate through additional plantings and purchase of existing timber assets.

### **What KPT has bought**

KPT has purchased a forest estate which includes 19,000ha of land, of which approximately 10,700ha is planted with mostly mature hardwood forests with a current standing volume of timber estimated at 2.4 million green tonnes. The purchase price was \$55m.

KPT purchased these assets for around their "stand-alone" value, paying nothing for the value to be gained by merging the assets and offering a substantial return once harvested. Management has noted that this acquisition will transform KPT from a small timber grower to a large, low cost sustainable timber grower and exporter, with the following impact.

- Quadruples KPT's landholding.
- Triples KPT's volume of standing timber, with a superior resource profile and providing operational scale in harvesting and haulage.
- Underwrites the economics of the company's wharf project.
- Allows management to focus on gaining approval for that wharf.

KPT management now believes it has the financial capacity to build a port and begin harvesting without issuing any more shares.

#### **Next steps**

KPT has applied for approval to build its proposed wharf and the South Australian Minister for Planning has designated it a 'major project'.

Information about the company, including its stock exchange announcements, is available at [www.kipt.com.au](http://www.kipt.com.au).

We will keep unitholders informed of major developments at KPT.

Fred Woollard and Nigel Burgess

9 May 2017

*Samuel Terry Asset Management Pty Limited (AFSL 278294) does not guarantee the repayment of capital or any particular rate of return from the Trust. Past performance is no guarantee or indication of future performance. The unit price can go down as well as up. Investment returns have been calculated in accordance with normal industry practice utilising movements in the unit price and assuming reinvestment of all distribution of income and realized profits. The above report does not take into account a reader's investment objectives, particular needs or financial situation. It is general information only and should not be considered as investment advice and should not be relied on as an investment recommendation.*