# Strategy Notes – Reporting Season February 2018

While the month-end reports for February will indicate the ASX Small Ordinaries finished the February reporting period dead flat, it would be difficult to find any smaller cap investors this month that would summarise the reporting period as dreary. While global equity markets faced their own return to a 'more normalised' level of volatility through the beginning of February, the ASX reporting season in the small and mid-cap space served up some equally sizeable price action movements of its own,

## ASX Small Industrials – 10 Best/Worst Performers February 2018

| Best | | | Worst | | |
|---|---|---|---|---|---|
| Ticker | Name | Rel Perf | Ticker | Name | Rel Perf |
| NEC | Nine Entertainment | 35.7% | BWX | BWX | -34.0% |
| MSB | Mesoblast | 32.9% | IPH | IPH | -33.5% |
| ALU | Altium | 32.8% | AYS | Amaysim | -31.9% |
| CTD | Corporate Travel | 25.7% | SIV | Silver Chef | -31.3% |
| SSM | Service Stream | 22.1% | MYR | Myer | -31.3% |
| BAL | Bellamy's | 21.6% | WTC | Wisetech Global | -31.2% |
| IEL | IDP Education | 19.9% | EML | Eml Payments | -27.3% |
| CGC | Costa Group | 19.4% | ISD | Isentia Group | -25.8% |
| GWA | GWA Group | 18.8% | PTM | Platinum Asset Management | -22.8% |
| APX | Appen | 18.6% | SUL | Super Retail Group | -18.8% |

*Source: JP Morgan*

Within the small and mid-cap space this reporting period, the majority of companies that experienced fairly material share price movements could ultimately be categorised into one of three broad categories:

1) 'Low Expectation' Businesses Delivering Upside Surprise

The bulk of businesses in this group generally entered the reporting period with relatively low overall growth expectations, either as a function of operating within more structurally challenged industry sectors or being broadly recognised as a business in the more mature, lower-growth stage of their corporate lifecycle. As a consequence, valuations of these businesses are typically below the average market multiple and the growth hurdle required to generate a re-rate in their underlying valuation is equally fairly low. This season saw re-rates from a number of these businesses including **Nine Entertainment, GWA Group, The Reject Shop, Accent Group** and **HT&E.**

We typically see more of these 'lower expectation' names aggressively re-rate at the later stages of a market cycle when market valuations are already stretched and the market is struggling to find options to deploy capital into more traditional value-type companies. While quality of business is often compromised in this later stage, the re-rates experienced by a number of these businesses following slightly better than expected outlooks can be fairly stellar. **Nine Entertainment**, for example, saw its market capitalisation…

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