



January proved an eventful start to the calendar year, with one of the Forager Australian Shares Fund's largest investments the subject of a takeover offer.

Construction giant **CIMIC** (CIM) is already the largest shareholder in mining contractor **Macmahon** (MAH). A bid for the entire company, which has long been anticipated, arrived a few weeks ago. The \$0.145 offer price represents a 32% premium to the last traded price before the bid.

It looks like CIMIC are trying to get this deal done before the industry turns for the better – something they would have a much better view of than us. And we think it undervalues Macmahon. But the bid is excellent news.

Firstly, the offer is “unconditional” and can only be withdrawn under very limited circumstances. That means we have a free option to observe the next few months and still sell our shares if we don't like what we see from the industry or the response from the board.

Secondly, for the past few years we have been pushing the board to realise the value inherent in Macmahon's business and have been frustrated at their progress. The directors have already stated that the bid undervalues the company. Now it is time to prove it. The response to CIMIC's bid needs to have a clear focus on returning cashflow to shareholders.

Finally, Macmahon needs to show it can win profitable contracts. There has been a lot of talk about their pipeline over the past 12 months. Those words need to turn into action. Despite dramatic cost cutting in recent years, Macmahon has the infrastructure of a large mining contractor. It needs about \$500 million per annum of revenue to justify its large-company overheads. To avoid being gobbled up, it needs to win contracts.

Our valuation for the company is around \$0.20 per share. The company has \$0.17 per share of net tangible assets. Roughly 30% of that is net cash, and a recently expanded flagship contract at the Tropicana gold mine underpins the rest.

Patient shareholders are likely to do better than CIMIC's bid and we have added to the holding since it was announced.

The Fund's holding in **South32** (S32) was completely sold during the month.

The coal price has tripled in the last 12 months and is now close to four year highs. Since the nadir this time last year, South32's share price has tripled too.

Even at its 2016 full year result last August, the company was trading at an attractive 37% discount to book value. The share price is up another 40% since then and the discount has evaporated. It has been an outstanding investment but we are less optimistic than most about the sustainability of China's resurgent commodity demand.

One commodity we remain optimistic on is oil. While wrong for two years and yet to be proven right, OPEC's decision to curb supply has put a rocket under the price (see the International Fund's section of the [December Quarterly Report](#)).

It hasn't been easy to find attractive investment opportunities in Australian energy stocks as most rely on the price of gas rather than oil. Nevertheless, the Fund holds four stocks that should benefit indirectly from a higher oil price.

These are **Cardno** (CDD), **GR Engineering** (GNG), **LogiCams** (LCM) and **Matrix Composites & Engineering** (MCE). These investments represent about 16% of the Fund's assets. While the look through exposure to the oil price is much lower (many of them have businesses unrelated to the oil sector), you should expect a meaningful portfolio benefit if the oil price continues to rise.

#### FACTS

<b>Fund commenced</b>	30 October 2009
<b>ASX Code</b>	FOR
<b>Income distribution</b>	Annual, 30 June

#### UNIT PRICE SUMMARY

<b>Date</b>	31 January 2017
<b>NAV</b>	\$1.72
<b>Market Price</b>	\$1.92
<b>Portfolio Value</b>	\$150.6m

#### PERFORMANCE

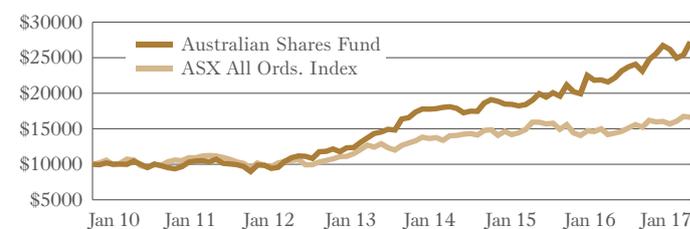
Past performance is not a reliable indicator of future performance.

#### Forager Australian Shares Fund Performance Summary (as at 31 January 2017)

	Australian Shares Fund	All Ords. Accum. Index
1 month return	7.20%	-0.77%
3 month return	4.01%	5.92%
6 month return	9.99%	2.65%
1 year return	26.13%	17.09%
3 year return (p.a.)	14.76%	7.49%
5 year return (p.a.)	23.27%	10.29%
Since inception* (p.a.)	14.80%	7.24%

\*30 October 2009

#### COMPARISON OF \$10,000 INVESTED IN THE AUSTRALIAN SHARES FUND VS ASX ALL ORDS. INDEX



Source (All Ords): S&P Capital IQ

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