

Active research delivers results: SeaLink Travel Group



SeaLink Travel Group in brief:

Established: 1989

Listed on ASX: October 2013

Market capitalisation: ~\$134m

Sector: Consumer
Discretionary

About the stock

SeaLink Travel Group (SeaLink) is an established, geographically diversified tourism and transport company which provides services in two diverse industries being the transport industry, moving regular commuters and freight between travel destinations, and also the tourism industry, promoting and packaging holiday destinations, providing tours and delivering tourists to travel destinations.

The company currently has operations across three states and the Northern Territory operating under such well-recognised brands as "SeaLink" and "Captain Cook Cruises".

The main products and services of SeaLink are:

- Passenger and freight ferry services between Cape Jervis and Kangaroo Island in South Australia (SA)
- Tourist cruises and other charter cruises on Sydney Harbour, under the "Captain Cook Cruises" and "Matilda Cruises" brand as well as regular ferry passenger services
- Murray River cruising aboard the historic PW Murray Princess in SA
- Passenger ferry services between Townsville and Magnetic Island and Palm Island in Queensland
- Passenger ferry services between Darwin and Tiwi Islands
- Various packaged tours and related services in Australia.

Key facts:

- Over 2 million customers served per annum
- Strong EBIT margins of 12% on greater than \$100m in revenues
- Key brands have been operating for more than 20 years

SeaLink is positioned to grow both organically and by acquisition. The board and management team have a long history of well-timed and disciplined acquisitions and divestments in the sector.

By targeting popular tourism destinations in Sydney Harbour, Kangaroo Island, north Queensland and most recently Darwin, the demand for SeaLink's services is aligned with the general growth of Australia as a tourism destination.

Adding SeaLink Travel Group to the Trust: Our fundamental research approach

SeaLink was added to the Trust upon its initial public offering (IPO) on the ASX in October 2013 at a price of \$1.10, with Perennial Value taking a cornerstone position in the float and emerging as a substantial shareholder.

The Perennial Value team first came into contact with SeaLink in 2011 when they were a private company who were still considering whether or not to pursue a listing.

Why we took and held a position in SeaLink:

- ▶ Long corporate track record of quality earnings.
- ▶ Long history of well-timed and disciplined acquisitions and divestments in the sector.
- ▶ Good leverage to improvements in the domestic tourism market.

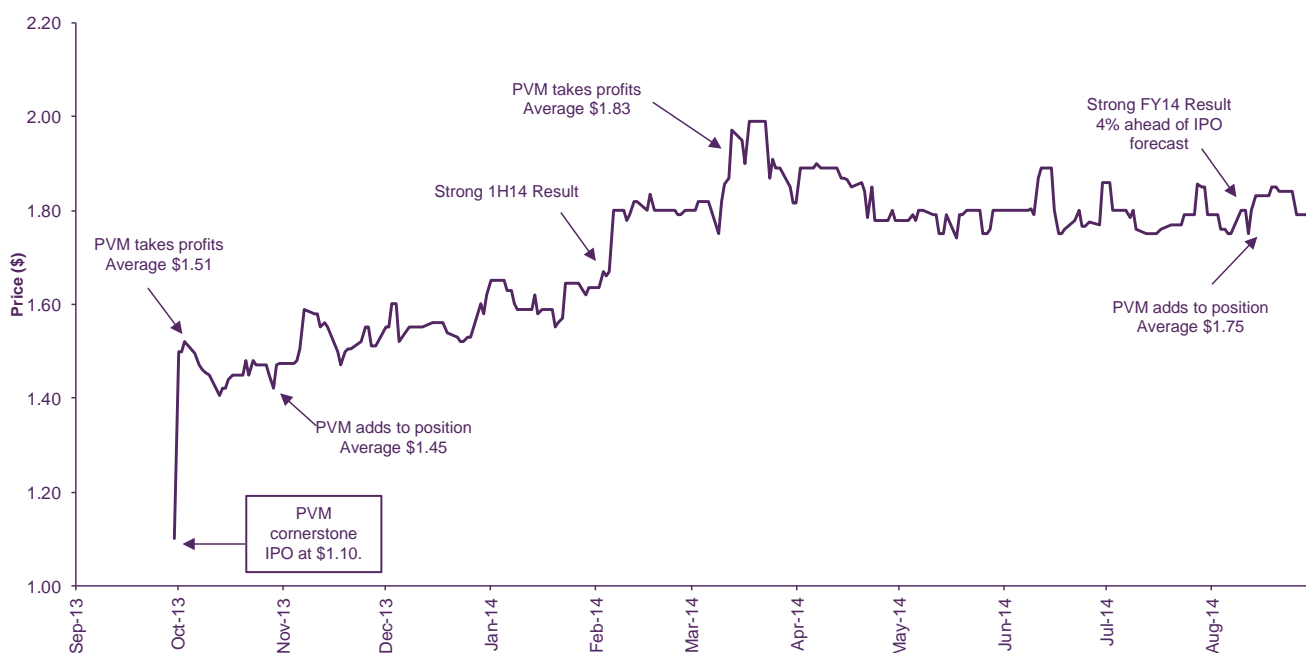
SeaLink stood out amongst other potential IPO candidates given its long corporate track record of quality earnings (over 24 years) and high quality management team with large personal shareholdings.

As SeaLink firmed up its plans to IPO, our team stepped up due diligence efforts with detailed analysis and modelling of historical accounts and a site visit to key assets in Adelaide and Kangaroo Island.

What became clear from our due diligence (including discussions with local residents) was the SeaLink operation in Kangaroo Island had a strong competitive advantage given the location of its assets and long government leases, enabling them to operate profitably despite several competitors coming and going over the years. In addition the assets in Sydney Harbour were bought while domestic tourism was depressed and provided good leverage if conditions improved (which we were forecasting given increasing Chinese arrivals and the likely fall in the AUD).

Given the quality of the business and attractive valuation (10x P/E at listing) Perennial Value secured a cornerstone position in the float. While the strong performance since floating has closed the valuation gap with the market, we believe SeaLink remains well positioned to benefit from improving conditions in the domestic tourism market.

**Portfolio Managers
Grant Oshry and Andrew Smith**



Source: Perennial Value, IRESS as at 12 September 2014

Signatory of:



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