

## For small cap investors, patience has its rewards

**By Perpetual Asset Management** 

23 June 2025



Small cap investing takes patience, a long-term view, and a steely focus on valuation, says Perpetual's Alex Patten and James Rutledge.

- EVT: stock in focus
- Diversified asset base, long-term chair, and proactive management
- Learn more about the Perpetual Smaller Companies Fund

A stock that has rewarded disciplined small cap investing in 2025 is EVT Limited, says Patten, co-portfolio manager of Perpetual's Smaller Companies and Pure Microcap funds.

"EVT had a tough few years and while there was no single catalyst to change its fortunes, we were confident that patient investing would bring rewards," Patten says.

EVT operates cinemas, including Event Cinemas, hotel groups Rydges, QT, Lylo and Atura, and restaurants and resorts, including Thredbo, in Australia, New Zealand and Germany.

It has a diversified asset base, a long-term chair in Alan Rydge who has been with the company for almost 50 years, and pro-active management, Patten says.

"It has a strong balance sheet - \$2.3 billion of property assets and \$300 million of debt - which is something we look for.

"When you have someone like Alan involved in the company for such a long time, you are confident he isn't going to do anything stupid. It is a bit of an unusual asset. It owns a lot of hard assets. Many of their hotels are freehold," Patten explains.

## Tough years

"The company came out of tough years in COVID and the slow rebound in international tourism. It suffered from the Hollywood writers' strike which impacted the number of cinema releases and there was also a couple of poor snow seasons at Thredbo," he says.

Many investors opted to sell-out or ignore the stock. "People looked at it and there were no catalysts for earnings upgrades in the short term and it just drifted for a long period of time. Eventually the market noticed it and it has gone up this year quite aggressively."

Fortunately for EVT, it had a significant property portfolio and has sold some of those assets in recent years. "They received good prices above market value," Patten says.

## **Better times**

This year, many of the headwinds have subsided.

"Earnings have been better across cinemas and across hotels. In the cinemas, EVT demonstrated that it can earn pre COVID levels of profit on materially lower attendance numbers," he says.

"They changed up their offering to customers. There is more premium, Gold Class type experiences and more dining. Spend per head is up substantially. And there's a strong slate of

new movies in the next six to 12 months."

EVT management is also refining its strategy in the hotels division. They are progressively moving towards a more capital-light model, adding new hotel management agreements. And they are actively working to unlock value across their portfolio which includes early steps to sell a major development asset in the Sydney CBD.

It's meant EVT has outperformed many tourism stocks, Rutledge says.

"Other tourism related stocks, like a Flight Centre or Corporate Travel, have done almost the polar opposite and underperformed. EVT is a bit unique because it has the asset backing."

"It's a great indication of what is going on in the market at the moment. Investors are very earnings focused, looking for the next upgrade or downgrade, and less focused on valuation."

Rutledge says EVT was trading below asset backing, meaning there was no value ascribed to operating earnings. While that has changed – the asset backing is valued at \$12.50 a share and EVT is trading more than \$16 a share – the price at one point late last year around \$10 was "pretty ridiculous".

"It just shows that short term nature of how the market's looking at things."

## About Perpetual's Australian small cap equities team

The Perpetual Smaller Companies Fund aims to provide long-term capital growth and income by investing in companies outside the S&P/ASX 50 Index (when first acquired).

The portfolio leverages the growth potential of smaller and emerging companies through a proprietary stock selection process.

Perpetual is a pioneer in Australian quality and value investing, with a heritage dating back to 1886.

We have a track record of contributing value through "active ownership" and deep research.

Find out more about Perpetual's Smaller Companies Fund

Want to find out more? Contact a Perpetual account manager





This information has been prepared by Perpetual Investment Management Limited (PIML) ABN 18 000 866 535, AFSL 234426. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. The information is believed to be accurate at the time of compilation and is provided in good faith. This document may contain information contributed by third parties. PIML does not warrant the accuracy or completeness of any information contributed by a third party. Any views expressed in this document are opinions of the author at the time of writing and do not constitute a recommendation to act.

The product disclosure statement (PDS) for the Perpetual Pure Microcap Fund (ARSN 164 986 047) and the Perpetual Smaller Companies Fund (ARSN 091 188 082) relevant (Funds), issued by PIML, should be considered before deciding whether to acquire or hold units in the Funds. The PDS and Target Market Determination for the Funds can be obtained by calling 1800 022 033 or visiting our website <a href="https://www.perpetual.com.au">www.perpetual.com.au</a>. No company in the Perpetual Group (Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of any fund or the return of an investor's capital.