

# Investment Watch

Winter 2020 Outlook



Equity Strategy –  
potholes emerge in front  
of the surprise rally

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Updated Asset  
Allocation





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 **morgans**










# Welcome

We still believe the future looks positive for the equity market, but 'great expectations' of the successful reopening of the economy and the eventual development of a vaccine, may be what hampers the market's near-term performance as we saw over the past few weeks. In this Winter Outlook edition, we look at the shape of the recovery from the COVID-19 pandemic and implications for the global economy. We update asset allocation benchmarks to reflect the realities of the current investment climate and review the outlook for some key sectors such as Banks, Retail, Telecommunications and Resources.

## Recently published research

-  **Equity Strategy** – COVID sector outlooks and strategies (29/6)
-  **Equity Strategy** – Morgans' Best Ideas (29/6)
-  **Telecommunications** – Progress report and lessons from South Korea (24/6)
-  **Economic Strategy** – Damage priced in is overdone (19/6)

## Recent corporate offers

 <p><b>Novonix Limited</b> Placement &amp; Entitlement Offer Lead Manager &amp; Underwriter</p> <p>A\$58.0m June 2020</p>	 <p><b>Mach7 Technologies Limited</b> Placement &amp; Entitlement Offer Joint Lead Manager &amp; Underwriter</p> <p>A\$34.8m June 2020</p>	 <p><b>Medlab Clinical Limited</b> Placement &amp; SPP Lead Manager</p> <p>A\$5.4m June 2020</p>
 <p><b>Kalium Lakes Limited</b> Placement &amp; Entitlement Offer Joint Lead Manager &amp; Underwriter</p> <p>A\$61.0m May 2020</p>	 <p><b>FirstWave Cloud Technology</b> Placement &amp; Entitlement Offer Joint Lead Manager &amp; Underwriter</p> <p>A\$14.9m May 2020</p>	 <p><b>Panoramic Resources Limited</b> Placement &amp; Entitlement Offer Joint Lead Manager &amp; Underwriter</p> <p>A\$91.1m May 2020</p>
 <p><b>Volpara Health Technologies</b> Placement &amp; SPP Joint Lead Manager &amp; Underwriter</p> <p>A\$35.0m April 2020</p>	 <p><b>People Infrastructure</b> Placement &amp; SPP Joint Lead Manager</p> <p>A\$17.6m April 2020</p>	 <p><b>Micro-X</b> Placement &amp; Rights Issue Joint Lead Manager &amp; Underwriter</p> <p>A\$15.0m April 2020</p>

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# Economics – recovery from pandemic

**The first half of this year saw some of the largest falls in GDP since World War II. The decline in Chinese GDP in the first quarter was the largest quarterly decline since the 1970s. The Atlanta Fed estimates that the decline in US GDP in the second quarter was 11.4%. Should this prove to be the case, this will be the largest quarterly decline since World War II. We estimate that the Australian economy declined by 9.0% in the same second quarter.**

## USA

The US economy fell by 1.4% in the first quarter. We estimate that it will fall by 11.4% in the second quarter. The Congressional Budget Office tells us that we will then have two quarters of very rapid recovery. They estimate a growth rate in the third quarter of 5.6%. This should be followed by second quarter growth of 2.8%. Each of these quarters will be amongst the fastest quarterly growth rates recorded since WW2. Even this rapid recovery will still fall short. We expect US output to decline by 5.6% in calendar 2020. This should be followed by a very strong 5% growth rate in 2021.

## China

The Chinese economy has already begun to recover in the second quarter of calendar 2020. This recovery is particularly strong in the industrial sector. In May, Chinese industrial production was up 4.4% over the level in May 2019. Steel production was up 6% over the same month in 2019. This is a very good thing for Australian iron ore exports.

Cement production was up by 8.6% over the same month in 2019. Automobile output was up by 19% over very poor production levels in May 2019. This increased number includes trucks. Production of saloon cars (Sedans) rose by only 2.7% in the year to May. Still, electricity production was up 4.3% and crude oil production was up by 8% (Source: National Bureau of Statistics China).

In spite of this impressive recovery in the industrial sector, the Chinese services sector still needs more work to move into positive territory. We can see this in the retail sector. Total retail sales of consumer goods are down by 2.8% compared to May last year. For the year to May 2020,

one of the biggest declines was in sales of petroleum and related products with a decline of 14.0% over May last year. Still, at the current rate of recovery we expect the Chinese retail sector to be in positive territory by the second half of calendar 2020.

We expect that the Chinese economy will grow by 1% in calendar 2020. This should be followed by a spectacular growth rate of 8.2% in 2021.

## Australia

Australian gross domestic product fell by 0.3% in the first quarter of 2020. Even so, GDP was up by 1.4% over the level in March 2019. We expect a decline of 9.0% in the second quarter of 2020. Of the total decline in growth of the first half of calendar 2020, a little over half will be made back in the second half of 2020. This will still give us two quarters of very rapid growth. In spite of that rapid output growth, total output should still be down by 4.6% for the whole of 2020. Growth in 2021 should be a very rapid 4.0%.

## The outlook for equities

The second quarter has seen a very rapid recovery in the market for US equities. At the same time that equities have gone up, earnings per share for companies in the S&P500 have gone down. Operating earnings per share of US\$19.50 in the first quarter of calendar 2020 were less than half of the peak earnings in the previous year of US\$40.14 in the second quarter of calendar 2019. We think that US earnings will also disappoint in the second quarter. Our model for the S&P500 currently stands at 2786 points. This is some 263 points lower than the level on 29 June of 3009 points.

The Australian equities market is not as over-bought as the US equities market. The over-valuation in the US market has been primarily caused by a rapid rise in the price of large technology stocks. These stocks are not a feature of the Australian market.

The Australian equities market is much more reasonably priced. At 5815 points on 29 June the ASX 200 is slightly below our fair value of 5900 points.

We expect in the third quarter the S&P500 to fall towards fair value. Should this occur, the Australian equities market will fall to a point where it is under-valued.



For more Economic coverage subscribe to our podcasts  
[soundcloud.com/morgans-financial-limited](https://soundcloud.com/morgans-financial-limited)

## Real GDP Growth %

Country	2019	2020	2021
US	2.3	-5.6	5.0
China	6.1	1.0	8.2
Australia	1.8	-4.6	4.0

Sources: IMF, Federal Reserve, China NBS, CBO

# Equity strategy – potholes emerge in front of the market's surprise rally

Remember no investor alive has witnessed this type of rates outlook nor this scale of stimulus first-hand. So we're cautious around potential potholes in the coming months.



For more, see our list of **Pre-reporting Season Catalysts – 25 June**, flagging upcoming stock catalysts ahead of the August reporting season. [bit.ly/2NMDwSD](https://bit.ly/2NMDwSD)



We still believe the future looks positive for the equity market, but 'great expectations' of the successful reopening of the economy and the eventual development of a vaccine may be what hampers the market's near-term performance as we saw over the past few weeks. The weight of these expectations has caused us to enter a data-dependent phase, where both economic growth and earnings are going to have to meet, if not exceed, elevated estimates already priced into the market. Any further disappointment regarding the strength or speed of the recovery could exacerbate interim periods of downside volatility. We believe a more cautious and targeted near-term portfolio tilt may be warranted.

## March quarter moves and opportunities

Equity valuations surged well ahead of traditional value fundamentals in the March quarter, pushed by a global flood of liquidity. Momentum is also perpetuated by the rise of ETFs where value judgments don't apply, and a sense of fear of missing out given perceptions that central banks have a 'whatever it takes, no matter the cost' attitude to supporting asset values. Given the ultra-low outlook for interest rates, it is easy to argue the market is pricing equities increasingly on a relative basis, rather than on an absolute view of return versus risk, which can be a dangerous dynamic should it revert. Remember no

investor alive has witnessed this type of rates outlook nor this scale of stimulus first-hand. So we are cautious around potential potholes in the coming months. Including:

- FY20 results/FY21 outlooks worse than share prices imply;
- Re-escalation of the CV19 outbreak;
- Un-coordinated removal of stimulus;
- Risks to global trade/relations; and
- US election uncertainty.

The Major Banks have been the clear large-cap laggards during the market's strong rebound from the March 'COVID' crunch. Our recent Bank sector note, 'Damage priced in is overdone', 19 June is worth a read, with **Westpac** the clear favourite and CBA looking too expensive. Retailers were among the hardest hit into the March lows, but the sector has seen the third strongest rebound since with many surprisingly strong trading updates supported strongly by the market. Along with the Banks, we see some of the better opportunities among Telcos, essential Industrials businesses, and also among sub-segments of the REITs sector which got caught in March over-selling. Sectors like Online and Travel look most vulnerable to a re-escalation of concerns around CV19, given their stunning rebounds off their lows.

We outline our current sector views and best ideas in the table opposite.

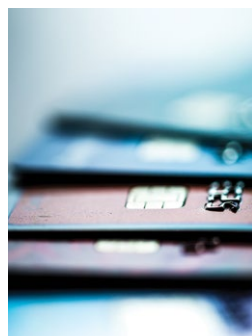
## Key sector outlooks

Category	Sector	Sector rating	Best buys	Analyst's commentary
		<div><div>-ve</div><div></div><div></div><div></div><div></div><div></div><div>+ve</div></div>		
Financials	Banks	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	WBC	We think the bad debt experience from COVID-19 will be less severe than that experienced during the GFC as we're seeing governments and central banks providing cushioning to bank and private sector balance sheets to an extent never seen before. As such we think share price damage in the banks looks overdone.
	Diversified Financials	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	MQG, CPU, MAI, Z1P, HUB	The outlook remains very much shaped by a difficult economic environment and potential volatility. Remember that lower bond yields are a sector headwind and when combined with risks like elevated bad debts, we would expect investors to generally be more underweight the sector at this time.
Defensives	Consumer Staples	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	COL	The spike has now abated, but demand will remain solid for the foreseeable future as consumers spend more time at home. However some new costs look permanent (security, cleaning, PPE) limiting operating leverage going forward.
	Healthcare	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	RMD	We expect Healthcare's defensive characteristics to help sustain a premium rating. The sector is a likely beneficiary of capital inflow should global COVID-19 concerns re-escalate, despite some stocks looking expensive.
	Telco	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	TPM, SLC	Sentiment is finally turning the corner now that the TPM, SLC, NBN is 95% built and ~80% in use, settling down customer migration. Telcos also see an improving outlook in mobile as competitive activity becomes more rational.
	Infrastructure and Utilities	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	APA, SKI, AZJ	Providers of critical services with regulated revenues (AST, SKI), resilient demand (AGL), or long-term take-or-pay contracts (APA) should remain in demand. Ultimately, ultra-low interest rates can plausibly intensify the appeal of strong cash generators (SYD, TCL) once their volumes recover.
	A-REITs	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	AQR, WPR, AVN	With notable sector under-performance, we see scope to increase REITs exposure at more attractive valuations and for robust and attractive income in some segments, while other income-oriented sectors face dividend cuts.
Cyclicals	Consumer Discretionary	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	JBH, CKF, ADH, BBN, ALL	Retail has bounced much harder and quicker than anyone expected, however it is difficult not to worry about conditions when some artificial support is eased later this year.
	Industrials	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	AMC, CWY, CTD, ALQ, PWH, ACF	Earnings risks for many Industrials under our coverage will be fairly moderate compared to other sectors, due to the relatively defensive nature of many of these businesses and the weaker AUD.
	Online Media	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>		Online leaders do suffer during economic downturns, but tighter markets may starve the competition of the capital required to compete. That said, the sector looks to have run too far ahead of valuation fundamentals.
	Agriculture	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	ELD, CGC	Dramatically improved seasonal conditions and a bumper winter crop outlook means the Ag stocks with solid balance sheets are a good place to invest amid ongoing volatility.
Resources	Metals & Mining	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	RIO, BHP, ORE, STA	Strong and sustained iron ore prices support compelling yields in the majors. Metals and energy pricing have been much weaker, but look set to benefit from building supply responses and demand recovery as economies re-open.
	Energy	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	STO, SXY	Oil prices cannot remain at current levels indefinitely as a vast amount of the industry is unprofitable. Geopolitics is unfortunately a dominant and unpredictable influence on already concerning demand issues.





# Banks – share price damage looks overdone



For more refer to our recent sector note **Damage priced in is overdone**

[bit.ly/3eURxJJ](https://bit.ly/3eURxJJ)

**We believe the bad debt damage being factored into current major bank share prices is overdone with the exception of CBA, which is one of the key reasons why CBA is our least preferred major bank. Westpac is the only major bank where we believe the bad debt damage being priced in is greater than that experienced during the GFC, and this is one of the key reasons why Westpac remains our preferred major bank.**

Across the sector, at this stage we continue to be of the view that the bad debt experience during the current crisis will not be as severe as that experienced during the GFC, largely as this time we are seeing the Australian government and central bank provide cushioning to bank and private sector balance sheets to an extent never seen before.

While system credit growth unsurprisingly remains subdued, we expect the major banks to regain home lending market share during this period of funding stress for non-bank lenders (NBLs). On the outlook for dividends, our base case continues to be that FY20 interim dividends will not be paid by ANZ and WBC even on a deferred basis; we expect an update on this front from these banks in August. Our base case for CBA is that the final dividend for FY20F will not be paid; however, we see a greater probability of this being paid on a deferred basis compared with the interim dividends of ANZ and WBC due to CBA's different reporting cycle. With the staged easing of lockdown restrictions currently being experienced in Australia and signs of a plateauing in loan repayment deferrals, we expect ANZ, NAB and WBC to declare final dividends in November and we see the possibility of CBA declaring a deferred final dividend in November.

## Big-4 banks 12-month forecast

Stock	Recommendation	Share Price	Target Price	Dividend Yield	Gross Yield	12m Forecast TSR
WBC	ADD	\$17.79	\$22.50	8.1%	11.5%	38%
ANZ	ADD	\$18.56	\$21.00	7.7%	10.0%	23%
NAB	ADD	\$18.11	\$20.00	7.2%	10.2%	21%
CBA	HOLD	\$68.58	\$67.50	5.5%	7.9%	6%

Source: Morgans, IRESS. Data at 30 June 2020.

# Telco – an improving outlook

**Tele-Communications**  
Progress report and lessons from South Korea

**TPG Telecom**  
ADD TP \$9.14  
Free cash to flow



For more refer to our recent analyst update **bit.ly/2YSH0ct**

**Sentiment in the Telco sector has been poor since the reality of the NBN roll-out set in. Now that the NBN is 95% built and ~80% in use, the outlook for telco companies is improving.**

In addition to NBN nearing completion, the outlook for mobile is equally looking up. This is due to TPG Telecom merging with Vodafone to create three healthy, and equally importantly economically rational, full service mobile players in the Australian market. Finally, 5G will experience a mainstream launch within the next six months (when Apple finally releases their 5G iPhone). With the mainstream launch of 5G, prices will rise, as players can once again differentiate their offering. Players also need to increase prices to generate a return on their incremental 5G spend.

Retail plan prices for NBN have been broadly stable for the last two years while retail plan prices have been broadly stable in mobile for the last six months. Given an average two year customer contract these price changes take time to work through but as lead indicators they bode well.

We can also look to lessons learnt from outside Australia with respect to the impact of 5G and its implications for the de-commoditised mobile market. These lessons bode well for improving Telco sector returns. Australia ranks #12 on the global stage with respect to 5G adoption. Lessons from South Korea which ranks #1 globally on 5G are that Return-on-Equity and Free-cash-Flow in the sector should improve with the launch of 5G.

We believe TLS is the best placed to leverage 5G mobility but we await the release of the 5G enabled iPhone in late CY20 for a more mass market take-up of 5G. This is because Apple accounts for ~40% of AU handsets but serves the premium consumer who is likely an early adopter of 5G. Our key **Telco** picks remain TPG Telecom and **Superloop**.

# Fixed Interest – an opportunity awaits for exchange traded bonds

Exchange Traded Bonds (XTBs) have been listed on the ASX since 2015 and were developed by the Australian Corporate Bond Company (ACBC) to give retail investors the opportunity to gain exposure to a single corporate bond issued by a range of ASX 100 listed companies. XTBs can be traded on the ASX in parcels as small as \$100 and have the same coupon rate and maturity date as their underlying bond.

Before XTBs, retail investors have only been able to access corporate bonds via pooled investments such as bond ETFs and managed funds. XTBs combine the predictable income and capital stability of corporate bonds, with the transparency and liquidity of the ASX market.

Over the last 5 years, a trial of XTBs has been conducted by ASIC and ASX to ensure operational effectiveness, investor awareness, education and protection. As of 31 May 2020, 34 XTBs have matured with \$148 million being returned to XTB investors in face value payments at maturity.

There is now an opportunity for ASX 200 listed companies (such as AGL Energy, Telstra and BHP) to raise debt capital via the issuance of an XTB. This provides a unique opportunity to retail investors to invest in a single corporate bond in an ETF type structure. The difference being that the XTB will mature when the underlying bond matures. It is like an ETF that focuses on a single corporate bond (with no index tracking). This means you can choose the specific corporate bonds you want to invest in.

Corporate bonds can provide diversification in a portfolio and offer exposure to a defensive asset class, which is particularly important in these times of greater market uncertainty and all-time low deposit rates. Acknowledging the implicit lower risk of bank deposits, XTBs offer the alternative of potentially higher yields. The average current yield across listed XTBs is ~3.74%. For more information on XTBs please contact your Morgans adviser.



For more information visit the XTB Web site [xtbs.com.au/all-available-xtbs/](https://xtbs.com.au/all-available-xtbs/)



Sources: XTB Company Website

## Resources – an iron ore story

**Strong iron ore prices are supporting the earnings of the major Miners – BHP, RIO and Fortescue – which look significantly healthier than in other sectors. This creates a unique dynamic where these companies arguably offer the most reliable sources of dividend income for investors in a COVID-disrupted 2020.**

Iron ore prices have been supported by strong forces in both supply and demand. In particular, the troubles of Brazilian iron ore major Vale SA have kept the supply-demand balance tight in 2020 despite softer global demand conditions. So far this year, Vale's issues have been caused by ongoing government restrictions (in the continuing fallout of Vale's two tailings dam disasters) and weather impacts. Over the balance of 2020 it looks like

the impacts of the pandemic on Vale's Brazilian-based iron ore business could see a larger drop in Vale's shipped volumes. On the demand front, China's rapid recovery from COVID-19 and to a lesser extent a global stimulus response to the drop in economic activity, have combined to help to maintain the rate of steel consumption and demand for iron ore.

While iron ore prices might come back to earth at some point as these forces moderate, iron ore prices would have to more than halve for the major miners not to be generating substantial earnings and free cash flow. With their earnings-linked dividend policies, this gives the major miners attractive dividend yield profiles, especially relative to other sectors that are facing sharp declines in dividends and/or dilution risk from equity raisings.



For more refer to our recent sector update **Iron ore could re-test US\$120/t** [bit.ly/3eSDUL1](https://bit.ly/3eSDUL1)

# Consumer discretionary – mind the fiscal cliff traded bonds

## JB Hi-Fi

ADD TP \$39.62  
Rockstar sales,  
monster leverage



## Super Retail Group

ADD TP \$9.25  
Unscathed,  
debt sorted and  
supportive backdrop



For more refer to our recent analyst update [youtube.com/watch?v=tJ7UXvYdTss](https://www.youtube.com/watch?v=tJ7UXvYdTss)

Retail sales have fared far better than expected as restrictions ease and stores re-open. Consumers' willingness to spend is a product of Government stimulus, forced saving during the peak lock-downs, redirection of travel spend, the flow-through effects of JobKeeper and cash made available from early access to superannuation. Around A\$15bn of superannuation has been paid out to 2 million members to-date, and the second round of early release becomes available from 1 July-24 September 2020 for the 2020-2021 year.

Household goods retailers (homewares, furniture, electronics) have fared best of all categories as we all spent more time in, and more money on, our homes. While travel restrictions remain in place (international border closures), this trend has the potential to persist over the balance of this calendar year. The bounce in the Australian dollar off its lows has also been welcomed by retailers as this takes significant pressure off the cost of goods.

JobKeeper has been a saving grace for retailers as a large employer of casual workers, saving companies millions. We think the market will become nervous of consumer stocks over 3Q20 as concerns rise about spending post September when JobKeeper ends. Those companies that have fortunately navigated COVID-19 without much impact – that were ineligible for JobKeeper – may fare better during this period. These include **JB Hi Fi**, **Super Retail Group**, **Bapcor**, **Collins Foods** and **Domino's Pizza**, most of which feature in our current Best Ideas.

In short, retail has bounced much harder and quicker than anyone expected, however it is difficult not to be cautious about conditions when some artificial support is eased later this year.

## Asset allocation – a defensive tilt



The Morgans Strategic Asset Allocation methodology takes a systematic approach in optimising exposure to the various asset classes at different stages of the Economic cycle. [bit.ly/2VzMrL9](https://bit.ly/2VzMrL9)

The 2020 fall in global output will be sharper than in recent recessions as the global economy is now far more inter-woven. With roughly US\$5 trillion in stimulus deployed by central governments, debt-to-GDP levels in the world's economy are rising, in many cases comparable to post WWII levels. As central banks are likely buyers of a significant share of the new debt, this draws obvious funding concerns that will persist well past the health crisis. The role of government is also being rethought as they take a much more active role in the economy (guarantees, wage subsidies, nationalisation) placing the state as a backstop to banks and otherwise solvent firms.

Despite the best efforts of policymakers, a V-shaped recovery is looking more challenging as the effects of the health crisis persist. So the effects of the above appear to be long lasting. Disinflationary pressures (push toward tech/automation, online driven price transparency) and central bank actions (overt real yield reduction) are likely to keep bond yields low in the near to medium term. These combine to lend ever more weight to the lower-for-longer interest rates mantra.

The road ahead is unusually uncertain, but as we exit the crisis, the hunt for yield will intensify. Investors will again need to seek out less traditional equities and alternative investment-grade income securities to meet their return targets, while noting the risk that entails.

Our Asset Allocation settings remain defensive given the current escalation in unknowns. Note we have re-stated our Tactical Tilts to include an International Equities allocation for the first time.

Select segments of the equities market look challenged for Income in the near term (Banks, Transport Infrastructure). For this reason we have lifted our tilt toward Property to -1% (from -2%) funded from our cash position which reduces to +5% (from +6%). The Listed Property segment now offers far more attractive valuations on recent weakness, and offers an appealing source of secure Income in the non-Retail facing segments.

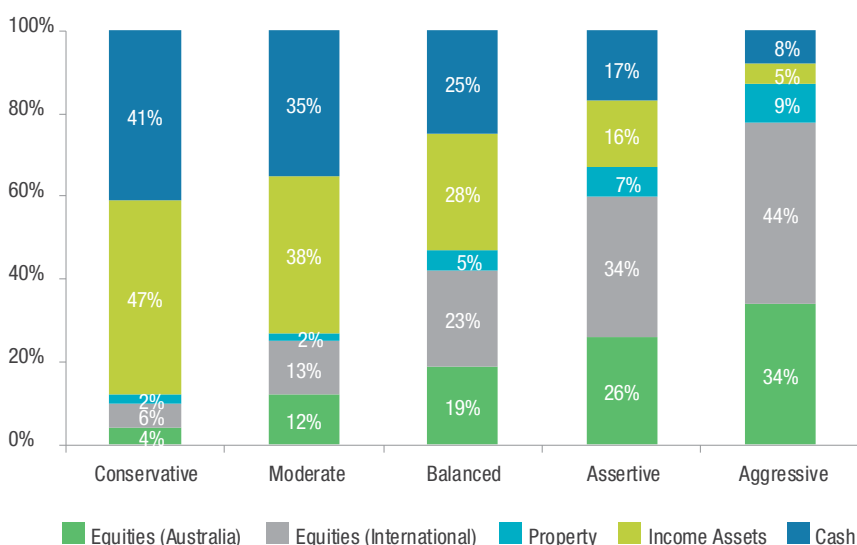
The stunning rebound in the US equity market in the March quarter looks to have run ahead of fundamentals, particularly as the pandemic leaves complex economic questions in its wake. As such we remain on the look out to allocate more active weight toward beneficiaries of a cyclical recovery, but that looks far too early to call with the information at hand.



## Quick views per asset class

<b>Equities</b>	The largest, best capitalised and well managed franchises are best placed to weather reduced demand. Reliable income generators and any semblance of growth should retain a premium while the outlook for inflation (and rates) remains subdued, potentially for an extended period.
<b>Listed Property</b>	The playing field may somewhat be re-drawn – particularly for retail – but the normalisation of human behaviour should re-instate demand for higher quality, physically scarce property. Some AREIT segments look particularly oversold, and offer compelling income where COVID-19 impacts have been modest.
<b>Global Infrastructure</b>	Appetite for quality yield will only strengthen on the lower interest rate outlook. Global infrastructure such as energy utilities, telecommunications and toll roads we again become highly attractive income sources.
<b>Listed Fixed Interest</b>	Pricing has recovered somewhat in-line with a reduction in global volatility across all asset classes. We retain a preference for shorter-dated securities, particularly given price volatility and the returns currently on offer.
<b>Government Bonds</b>	Australian Government bonds have been volatile of late and we continue to recommend that conservative investors with <\$250,000 stick to term deposits given the Government guarantee rather than making direct bond investments.
<b>Term Deposits</b>	We have seen a number of financial institutions offering special term deposit rates in the current climate as banks look to increase deposit funding.
<b>Cash</b>	Despite lower returns, we maintain a higher cash weighting for capital preservation and to protect against downside risks.

## Benchmark long-term Asset Allocation and current tactical tilts



Sources: Morningstar, Morgans Research

	Conservative	Moderate	Balanced	Assertive	Aggressive	Tactical Tilts
<b>Equities (Australia)</b>	5%	13%	20%	27%	35%	-1%
<b>Equities (International)</b>	7%	14%	24%	35%	45%	-1%
<b>Property</b>	3%	3%	6%	8%	10%	-1%
<b>Income Assets</b>	49%	40%	30%	18%	7%	-2%
<b>Cash</b>	36%	30%	20%	12%	3%	5%

Sources: Morningstar, Morgans Research

# International – opportunities abroad



For more information refer to our published note **Global leaders, fortress balance sheets** [bit.ly/2VAVbAI](https://bit.ly/2VAVbAI)

**We think the current market volatility and uncertain economic climate are uncovering a rare opportunity to gain exposure to some of the world's best businesses.**

The dominant global franchises offer protection against COVID-19 downside. Their balance sheets do the same and should facilitate consolidation/acquisition optionality ahead of the resumption of impressive growth.

## The world's best businesses...

Many of the world's leading consumer and technology stocks are still below their pre-COVID-19 highs. COVID-19 will have an impact on these businesses, but largely won't alter their long-term appeal. In fact, the pandemic may actually accelerate the pace of technological change required for businesses to compete in a post COVID-19 world around emerging trends in connectivity,

mobility, data/storage and consumption. Many of the companies profiled below are already at the leading edge of these areas. Their size, market share and competitive advantages offer near-term downside protection, and attractive value into the longer term.

## ...with fortress balance sheets

The 10 global leaders we profile enjoy balance sheet strength, with typically no material net debt, and in some cases enormous surplus cash balances US\$60-100bn (for Google, Microsoft). Technology leaders do suffer during economic downturns, but these balance sheets position these companies uniquely to benefit. Economic downturns and tighter capital markets usually starve smaller competitors of the capital required to compete. We would expect the leaders to use surplus cash opportunistically to consolidate and/or acquire to get stronger and for weaker competitors to potentially fall by the wayside.

Company	Sector	Exchange	Mcap (US\$bn)	Price (US/HK\$)	Target (Consensus)	Pullback (vs Feb 20)	Upside (Consensus)
Apple	Cons. / IT	NAS	1533	354	340	9%	-4%
Amazon.com	Cons. Retail	NASDAQ	1343	2693	2750	24%	2%
Alphabet	Internet / IT	NASDAQ	866	1363	1550	-11%	14%
Microsoft	Software / IT	NASDAQ	1489	196	205	5%	4%
Visa	Financials	NYSE	319	189	205	-11%	8%
Mastercard	Financials	NYSE	287	289	321	-16%	11%
PayPal	Financials	NASDAQ	201	171	165	38%	-3%
Berkshire Hathaway	Diversified	NYSE	426	175	213	-24%	22%
Alibaba	Cons. Retail	HK	594	215	255	0%	19%
Tencent	Internet / IT	HK	598	485	517	21%	7%

Source: FactSet. Data at 30 June 2020.

## Recent initiations

### United Malt Group (UMG)

HOLD TP A\$4.13



UMG is a global malt processing and craft brewing distribution business. It is the fourth largest commercial maltster in the world with malting houses in the US, Canada, Australia and the UK.

### Adelaide Brighton (ABC)

HOLD TP A\$2.85



ABC is one of Australia's leading, diversified construction materials companies with a long-dated track record of delivering solid earnings growth.

### MoneyMe (MME)

ADD PT A\$1.71



MME is a consumer credit business that utilises its digital presence and technology platform to offer innovative loan products.

### Medlab Clinical (MDC)

SPEC. BUY PT A\$0.36



MDC is an Australian listed healthcare company with assets in the nutraceutical, pharmacological, and drug delivery space.

### WH Soul Pattinson & Co (SOL)

HOLD PT A\$20.04



SOL has been a publicly listed company since 1903. Whilst its origin was in pharmacies, it has since evolved into an investment house with a diversified and uncorrelated portfolio of assets across multiple industries.

# Updated best ideas



Our best ideas are those that we think offer the highest risk-adjusted returns over a 12-month timeframe, supported by a higher-than-average level of confidence. They are our most preferred sector exposures

Refer to our **Updated Best Ideas** for more  
[www.morgans.com.au/stockpicks](http://www.morgans.com.au/stockpicks)

Company	Sector	Size	Risk	Price	12m price target	Dividend yield	Gross yield	12m TSR
Aristocrat Leisure (ALL)	Cons. Discretionary	Large	Moderate	\$25.50	\$31.31	1.8%	0.0%	25%
Coles Group (COL)	Cons. Staples	Large	Lower	\$17.17	\$15.20	3.5%	5.0%	-8%
Santos (STO)	Energy	Large	Moderate	\$5.30	\$6.30	1.9%	1.9%	21%
Macquarie Group (MQG)	Financials	Large	Moderate	\$118.60	\$121.46	4.0%	4.8%	6%
Westpac (WBC)	Financials	Large	Lower	\$17.95	\$22.50	8.0%	11.4%	33%
Aurizon Holdings (AZJ)	Industrials	Large	Lower	\$4.92	\$5.46	6.2%	8.1%	17%
Amcor (AMC)	Materials	Large	Moderate	\$14.48	\$16.80	5.0%	5.0%	21%
Rio Tinto (RIO)	Materials	Large	Moderate	\$97.96	\$105.00	8.4%	12.0%	16%
BHP Group (BHP)	Materials	Large	Moderate	\$35.82	\$36.70	3.5%	5.0%	6%
Computershare (CPU)	IT	Large	Moderate	\$13.25	\$13.90	2.9%	3.3%	8%
APA Group (APA)	Utilities	Large	Lower	\$11.13	\$10.82	4.7%	5.5%	2%
TPG Telecom (TPM)	Comm. Services	Mid	Moderate	\$8.93	\$9.14	0.7%	1.0%	3%
JB Hi-Fi (JBH)	Cons. Discretionary	Mid	Moderate	\$43.03	\$39.62	3.6%	5.1%	-4%
ResMed Inc (RMD)	Health Care	Mid	Moderate	\$27.54	\$29.00	0.9%	0.9%	6%
Cleanaway (CWY)	Industrials	Mid	Moderate	\$2.20	\$2.12	1.7%	2.5%	-2%
ALS Limited (ALQ)	Industrials	Mid	Moderate	\$6.56	\$8.28	2.1%	2.5%	28%
Spark Infrastructure (SKI)	Utilities	Mid	Lower	\$2.16	\$2.03	4.5%	6.1%	-1%
Superloop (SLC)	Comm. Services	Small	Moderate	\$0.99	\$1.30	0.0%	-	31%
Adairs (ADH)	Cons. Discretionary	Small	Moderate	\$2.30	\$2.62	0.0%	-	14%
Baby Bunting (BBN)	Cons. Discretionary	Small	Moderate	\$3.22	\$3.33	3.5%	5.0%	7%
Collins Foods (CKF)	Cons. Discretionary	Small	Moderate	\$9.42	\$10.23	2.3%	3.3%	11%
Corporate Travel (CTD)	Cons. Discretionary	Small	Higher	\$9.69	\$13.10	0.0%	-	35%
Elders (ELD)	Cons. Staples	Small	Moderate	\$9.42	\$10.20	2.3%	3.3%	11%
Costa Group (CGC)	Cons. Staples	Small	Higher	\$2.90	\$3.60	3.1%	4.5%	27%
Senex Energy (SXY)	Energy	Small	Higher	\$0.22	\$0.41	0.0%	-	88%
HUB24 (HUB)	Financials	Small	Moderate	\$9.30	\$11.14	1.1%	1.1%	21%
Mainstream Group (MAI)	Financials	Small	Moderate	\$0.57	\$0.64	0.0%	-	12%
Zip Co (Z1P)	Financials	Small	Higher	\$5.23	\$7.00	0.0%	-	34%
Acrow (ACF)	Industrials	Small	Higher	\$0.31	\$0.34	6.4%	9.2%	16%
PWR (PWH)	Industrials	Small	Moderate	\$4.49	\$4.70	2.5%	3.4%	7.2%
Orocobre (ORE)	Materials	Small	Higher	\$2.31	\$4.07	0.0%	-	76.1%
Strandline Resources (STA)	Materials	Small	Higher	\$0.26	\$0.36	0.0%	-	38.3%
APN Conv. Retail REIT (AQR)	Real Estate	Small	Lower	\$3.40	\$3.75	6.4%	6.4%	16.6%
Aventus Group (AVN)	Real Estate	Small	Moderate	\$2.09	\$2.53	6.8%	6.8%	28.0%
Waypoint REIT (WPR)	Real Estate	Small	Lower	\$2.60	\$2.71	6.0%	6.0%	10.1%

Source: Morgans. Data as 1 July 2020

Indicates published/linked Research Note

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