Investment Watch

Summer 2021 Outlook

morgans

Welcome

Another year has flown by. With Christmas around the corner, we take this opportunity to look back on a very challenging year.

The Morgans Foundation has grown to approximately $11 million in value and in 2020 reached a milestone of over $10 million donated to Australian charities. In 2020, we continued to support a core group of charities as well as match donations from our branches which we felt especially important given the unstable year we've experienced this year. We also continue to support our rural communities. Last year, following our Big Dry Friday campaign, with the help of staff and clients, we donated $1.25 million to Rural Aid with the Foundation matching donations up to $250,000. This year we held Little Dry Friday and together with the Morgans Foundation contributing $250,000, we raised $360,000. All proceeds were given to Rural Aid to distribute to farmers, many of whom are still experiencing drought conditions. Our friends in rural Australia are in our thoughts especially heading into the Christmas season.

In October, Morgans took out the ifa Dealer Group of the year award This award recognises the dealer group that has most effectively driven business growth during 2020 utilising a range of business development principles and tactics. Congratulations also go to our Senior Analysts Nathan Lead, Belinda Moore, Richard Coles and Nick Harris who have been recognised in the Refinitiv Starmine Analyst Awards for 2020 for outstanding performance either as stockpickers and/or earnings estimators for the period 1 April 2019 – 31 March 2020. These awards continue the tradition of our experienced Research Team consistently ranking in the awards going back many years.

As for the outlook for 2021, Michael Knox and our Equity Strategy team continue to uncover compelling market opportunities amongst the market noise. Early signs point to a recovery in the global economy through 2021, and while conditions are subdued, the Australian economy remains resilient despite the COVID-19 scars. We remind investors to remain vigilant against a series of macro-economic risks which are likely to make for a bumpy ride, and as always, some sectors will outperform others. That is why in this extended version of Investment Watch we include our key themes and picks for 2021 as well as our best buys. As always, speak to your adviser in relation to which stocks suit your investment goals.

2020 has been a challenging and disruptive year for many but from all the staff and management we appreciate your ongoing support as a valued client of our business. We wish you and your family a safe and happy festive season, and we look forward to sharing with you what we believe will be a prosperous 2021.

Recently published research

Equity strategy – Sector outlook and strategies	2/12
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Recent corporate highlights

Booktopia Group Limited – Initial Public Offer

Booktopia is the largest Australian-owned online book retailer with over 85% of the items sold in FY2020 being books and the balance eBooks, DVDs, audiobooks, magazines, maps, calendars, puzzles, stationery and cards.

- **Morgans role** – Joint Lead Manager
- **IPO size** – approximately $43.1 million
- **Expected ASX listing date** – Thursday, 3 December 2020

MAAS Group Holdings Ltd – Initial Public Offer

MAAS Group is a leading independent Australian construction materials, equipment and services provider with diversified exposures across the civil, infrastructure, mining and real estate end markets.

- **Morgans role** – Joint Lead Manager
- **IPO size** – approximately $144.4 million
- **Expected ASX listing date** – Friday, 4 December 2020

Control Bionics Limited – Initial Public Offer

Control Bionics designs, manufactures and sells wireless wearable electromyography (EMG) based augmentative and alternative communication (AAC) technology.

- **Morgans role** – Lead Manager
- **IPO size** – $15 million
- **Expected ASX listing date** – Monday, 7 December 2020

Youfoodz Holdings Limited – Initial Public Offer

Youfoodz specialises in the production and distribution of high quality and affordable fresh, ready-made meals and other convenience food products for residential (home delivery), retail and corporate customers.

- **Morgans role** – Joint Lead Manager
- **IPO size** – $70 million
- **Expected ASX listing date** – Tuesday, 8 December 2020

Dalrymple Bay Infrastructure – Initial Public Offer

Dalrymple Bay Infrastructure is an infrastructure asset that forms a critical link in the global steelmaking supply chain. The Dalrymple Bay Terminal was commissioned in 1983 and is located close to the Bowen Basin in Queensland, Australia. It is the world's largest metallurgical coal export terminal, handling 15% of global export metallurgical coal volumes in 2019.

- **Morgans role** – Co-Lead Manager
- **IPO size** – $1.36 billion
- **Expected ASX listing date** – Tuesday, 8 December 2020 (deferred settlement)

Desert Metals Limited – Initial Public Offer

Desert Metals is an exploration company focused on the Narryer Project located approximately 120km northwest of Meekatharras in Western Australia prospective for nickel / copper sulphide and gold mineralisation.

- **Morgans role** – Lead Manager
- **IPO size** – $5 million
- **Expected ASX listing date** – Wednesday, 9 December 2020

Sovereign Cloud Holdings Limited – Initial Public Offer

Australian Sovereign Cloud Infrastructure as a Service provider, delivering secure cloud-based computing services to each level of Australian Government and to Critical National Industries such as defence, education and health.

- **Morgans role** – Joint Lead Manager
- **IPO size** – $20 million
- **Expected ASX listing date** – Monday, 14 December 2020

Economics – emerging economies set to boom

In this issue, we explain why after a couple of heroic catastrophes in the 1990s, we got to the point that emerging economies are financed the way they are now. How this generates the situation that if the US dollar goes down, there is more liquidity in emerging economies and they may have more ability to provide more funding for international trade. Also when the US dollar falls, you tend to have these booms in emerging economies, including Australia. This is what we think is going to happen over the next two years.

The original catastrophes in the 1990s were experiments in how to lend money to emerging economies. These started off in the early part of the 1990s. Back in 1989 the US budget deficit was 2.8% of GDP and the Fed Funds rate was 9.75%. In the current economic climate this would crush the US economy and generate a recession, which is exactly what happened then. There was a housing crisis in the US over the next two years and a major recession in Australia. The one Paul Keating called, "The recession we had to have".

Two things then occurred: Firstly, the US budget deficit blew out to 4.7% in 1992, and the Fed cut the rate all the way down to 3%. Next, that generated a boom in finance in US dollar assets and particularly an international boom in finance and international assets. The recipients of these large US dollar loans were not just corporations in emerging economies but governments of emerging economies.

What then occurred over the following five-year period is that the US budget deficit, which was encouraging all this, became balanced. The US budget deficit moved from a budget deficit of 4.75% in 1992 to a balanced budget with a surplus of 0.3% in 1997, and the Fed Fund rate went up by 2.5%.

What that caused was the first major Sovereign Debt Crisis in US Dollar debt, and that's what became known as the Asian Debt Crisis. Thailand collapsed first, and as their sovereign debt collapsed that created a collapse in their private debt. This created the pattern of sovereign debt collapse which was followed by a major domestic slump. That process was repeated rapidly in places such as South Korea, the Philippines, Indonesia and Japan. It was widely forecast to bring the Australian economy down but didn't; that is a separate story as to why.

What did happen was a difficult lesson for emerging economies. So they yielded to a lot of advice, from institutions such as the IMF and the Bank of International Settlements (BIS), that they should issue debt in their own currency. What this solution generated was the circumstance where their sovereign debt was financed in their own currency and the banking sector (primarily US banks) provided services for debt issues and hedging in their own currencies.

This left the circumstance where all their business debt was still financed in US Dollar terms. That was the solution to those great crises of the 1990s, and that's the situation that continues still. So overwhelmingly the Thai Sovereign Debt is financed in now Thai Baht but major businesses in Thailand are mostly financed in US Dollars.

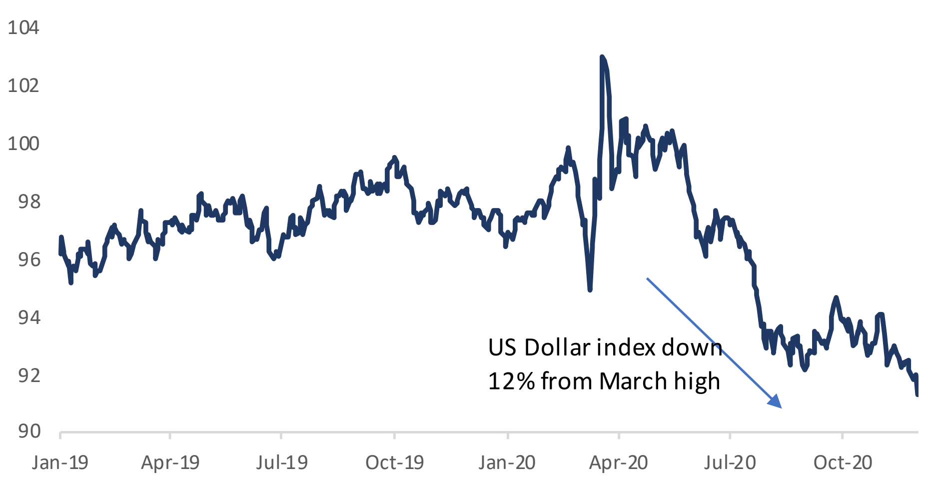
What this generates is a circumstance where the way that sovereign debt operates is very different than the way business debt operates. The way business debt operates is the same way commodity debt operates. What you find in periods of falling US Dollar is you get very low effective debt rates and you get enormous increases in liquidity in emerging economies to finance their domestic manufacturing and their international trade.

The BIS and others notable institutions have found that as a result of this falling liability in US Dollars for manufacturing firms in emerging economies, you tend to get a boom in manufacturing and therefore an increase in demand for imports from those countries. That is what we anticipate will occur in emerging economies over the next two years.

When the US dollar falls, you tend to have these booms in emerging economies, including Australia. This is what we think is going to happen over the next two years.

For more economic coverage subscribe to our podcasts

US Dollar Index (DXY)



Source: Bloomberg, Morgans

Equity strategy – positioning for a COVID-19 exit

We continue to think that equity markets will gain more ground over the next two quarters. In our view, the outcome of the recent US elections and the news that a COVID-19 vaccine may be available earlier and be more effective than previously anticipated has improved the distribution of potential outcomes for the economy and the market. The two key risks to our view are: 1) that the pandemic takes another turn for the worse over the northern hemisphere winter and a vaccine still takes a long time to develop, produce, and distribute; and 2) that policymakers withdraw support prematurely, undermining the economic recovery and the prospects for risky assets.

We suspect that a successful rollout of vaccines is still not fully discounted in equity markets. After all, many of the sectors and sub-industries that have been hit hardest by the pandemic, such as energy, real estate, airlines and banks, remain well below their levels at the start of this year. And since then, some things have changed in favour of equities. Most importantly, monetary policy is now much looser and is likely to remain that way for the foreseeable future. What's more, central banks have offered unprecedented support to many risky assets directly, which may have pushed down the sustainable level of risk premiums.

Divergence widens as second waves hit

Recoveries have been rapid by the standards of past downturns. But output is still well below pre-virus levels in most major economies. Even with output still so subdued, most recoveries were already stumbling before the latest wave of the pandemic and accompanying restrictions. Admittedly, the pace of the bounce-back from lockdowns was never likely to last. But now that numerous countries are grappling with a resurgence in infections, we think heightened consumer caution and new lockdowns will cause already fragile recoveries to stall or go into reverse.

However, there are some reasons why we think the economic fallout stemming from renewed outbreaks will be much smaller this time. For one thing, in countries that suffered severe first waves and draconian lockdowns earlier in the year, the overall health situation is better than it was last time in most cases. With younger people making up a greater proportion of infections, as well as there being more ventilators, PPE, and therapeutic treatments available, there has so far been less pressure on health services and fewer deaths. So, in many countries, there is not an overwhelming case for lockdowns to be as draconian as those earlier in the year.

What's more, while restrictions will no doubt be tightened further in more of the afflicted countries, we suspect they will generally continue to be more targeted than the blanket firm closures in March and April. This would keep a larger share of economic activity going.

Some sectors, such as travel and hospitality, are still vulnerable even to targeted restrictions. But they tend to make up a small share of total activity. And, having recovered only partially from their sharp falls in Q2, there is less scope for output in these sectors to fall now. Meanwhile, systems for government support for firms and households are already operational.

A further rise in coronavirus cases over the next few months presents a clear downside risk to our equity forecasts, and uncertainty remains around how quickly vaccines will be distributed. But in our view, the most likely outcome is that the virus is brought under control next year and the global economy continues to recover, which we think will help fuel further increases in equity markets. Our current forecasts assume that the virus will be supressed by a vaccine or herd immunity by 2022. Timely and widespread distribution of a highly effective vaccine would lead us to bring some of the 2022 recovery into 2021.

We outline our current sector views and best ideas in the table on page 6.

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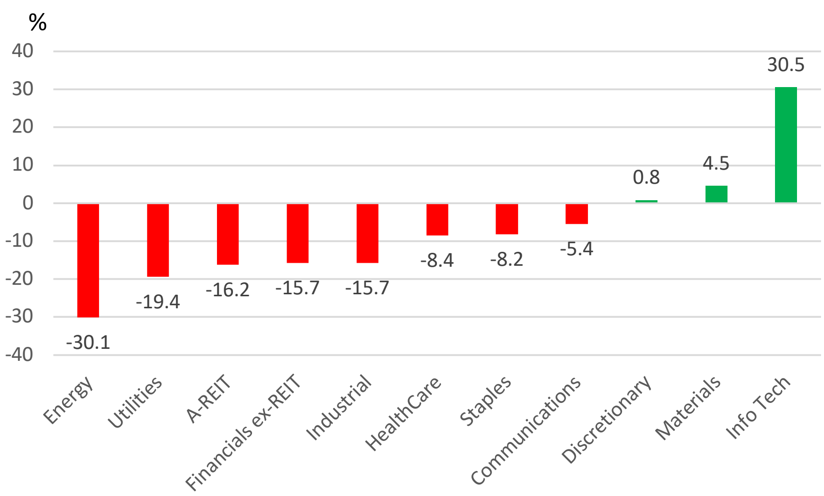
For more, see our Sector outlooks and strategies

ASX sector performance since COVID-19 high (20 Feb)



Source: IRESS, Morgans

Key sector outlooks

Category	Sector	Sector Rating	Best Ideas	Analyst Overview
Financials	Banks	Improving	WBC MQG	The banks recent financial performance has largely vindicated our view that the bad debt damage being factored into share prices was generally overdone. Strong capital positions and generally improving asset quality outlook is now supportive of the dividend outlook, helping to fuel the strong rotation back into the segment now underway.
	Diversified Financials	Improving	MFG QBE MAI KSL Z1P	While the outlook remains very much shaped by the pace of the economic recovery, improving risk appetite along with improving macro-economic settings (economic growth, loose monetary policy) have generated renewed sector interest. Signals suggesting a sustainable lift in bond yields would be bullish for the sector.
Defensives	Cons. Staples	Neutral	COL BGA	Demand looks set to remain solid for the foreseeable future as consumers and workers spend more time at home. The defensive nature of the sector may see it underperform during a cyclical recovery.
	Healthcare	Neutral	RMD VHT M7T	Strong vaccine progress favours cyclical laggards over the more defensive healthcare sector though this could easily revert depending on the recovery. We see good opportunities among small-cap healthcare, albeit with higher risk.
	Telco	Positive	NXT TPG	Sentiment has turned the corner now that the NBN is practically complete, helping to settle down customer migration. Telcos also see an improving outlook in mobile as competitive activity becomes more rational.
	Infra and Utilities	Neutral	APA SYD	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	Neutral	AQR WPR AVN	Recent updates saw some REITs provide FY21 guidance for the first time given the improved outlook, while others reaffirmed guidance issued in August. Most REITs are expected to keep distributions relatively flat on FY20.
Cyclicals	Consumer Disc.	Neutral	CTD LOV APE BRG JIN, ALL	Ironically, the development of a COVID-19 vaccine actually poses a threat to consumer discretionary share prices. This is both from a valuation/sentiment perspective initially and from an earnings impact down the track due to the re-direction of spending. We do note that significant value remains in consumer services, particularly in Travel.
	Industrials	Improving	AZJ AMC ORI ACF PWH PPE	Many companies have maintained operations through various restrictions due to the essential nature of their products and services. We expect this resilience to continue in 2021, although the rising AUD is a headwind to watch.
	Online media	Deteriorating	RBL CAT	The end of lockdowns, a potential vaccine on the horizon, and various governments in stimulatory mode will likely continue to see improvements in the end markets for the online leaders. However this looks captured in their record share prices and we prefer smaller cap exposures.
	Agri-culture	Positive	NUF IPL CGC ING	Following years of drought, improved seasonal conditions have provided much needed tailwinds for the sector and presented the opportunity for positive earnings operating leverage to return.
Resources	Metals & Mining	Improving	RIO BHP STA RMS RRL CRN	Strong iron ore prices support compelling yields in BHP and RIO. Gold stocks now look more interesting on weakness given our view that risk appetite is likely to be highly variable through a bumpier than expected COVID-19 recovery.
	Energy	Positive	STO SXY KAR BPT	Our conviction in a sustainable oil market recovery is growing helped by vaccine progress (global growth, demand recovery), declining inventories, US shale issues and a weakening US dollar. This paints a bullish 1-2 year outlook.

Negative | Deteriorating | Neutral | Improving | Positive

Asset allocation rebalance – January quarter

Risk on but anchored by a cyclical recovery

We enter 2021 with a risk-on bias, as we think the recovery in asset prices since the March lows has disproportionately rewarded the 'at-home' economy plays. The initial vaccine optimism led to a flurry of rotations from bonds to equities also big tech into cyclicals. However, the valuation discount of the cheaper cyclical assets is structurally so large that it is unlikely to be removed by the initial reaction.

Our generally positive view on asset prices rests on our forecast that the global economy will continue to recover from the coronavirus-induced recession, boosting both corporate earnings and investors' appetite for risk. In our view, news that a vaccine for COVID-19 may become available earlier and be more effective than previously anticipated has improved the distribution of potential outcomes for the economy and risky assets, notwithstanding the fact that several countries have recently re-entered lockdowns.

The US election outcome is also positive on balance for equities. A divided Congress reduces the chances of a significant anti-trust push and corporate tax increases, while a Biden presidency probably reduces the risk of further destabilising trade wars. Admittedly, the likelihood of a large fiscal stimulus package - which would have helped growth and earnings - appears to have decreased. But we were sceptical a major stimulus bill would have passed even with a Democratic Senate majority.

What's more, we expect monetary policy to remain accommodative for quite some time, keeping yields of safe assets low and supporting further gains in stocks, property and infrastructure. The possibility of a faster and more effective vaccine rollout has resulted in a significant sectoral rotation in recent weeks. We expect the rotation to continue over the next year or two. For example, we expect stocks that have done well out of the COVID-19 crisis, such as the IT and communication services sectors, to underperform in 2021. At the same time, we expect strong gains in sectors such as financials, energy and industrials, which have been hardest hit during the pandemic.

Given our risk-on bias, we overweight our position in Australian equities (+1%) and neutralise our underweight in International equities (0%). We maintain our slight tactical underweight in income assets (-1%) and neutralise our underweight in property (0%).

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.

Quick views per asset class

Equities	The largest, best capitalised and well managed franchises are best placed to weather reduced demand. Reliable income generators and any semblance of growth should retail a premium while the outlook for inflation (and rates) remains subdued, potentially for an extended period.
Listed property	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. Industrial A-REITs continue to see strong leverage to the change in consumer channels (ecommerce, fresh deliveries).
Global infrastructure	Appetite for quality yield will only strengthen on the lower interest rate outlook. Infrastructure such as energy utilities and telecommunications have stood up to the risks prevailing in the global economy.
Listed fixed interest	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.
Government bonds	Australian Government bond yields continue to be depressed through monetary policy. We recommend that conservative investors stick to term deposits given the Government guarantee rather than make direct bond investments.
Term deposits	Banks have reduced their reliance on deposit funding because of the RBA's support measures. This makes term deposit rates less unattractive relative to other asset classes.
Cash	Despite lower returns, we maintain a slightly higher cash weighting for capital preservation and to protect against downside risks.

	Conservative	Moderate	Balanced	Assertive	Aggressive	Tactical Tilts
Equities (Australia)	5%	13%	20%	27%	35%	1%
Equities (International)	7%	14%	24%	35%	45%	0%
Property	3%	3%	6%	8%	10%	0%
Income assets	49%	40%	30%	18%	7%	-1%
Cash	36%	30%	20%	12%	3%	0%

Source: Morgans Research

Banks – improving capital and dividend outlook

Our sector view leading into the most recent round of bank reporting was that the bad debt damage being factored into share prices was generally overdone. We believe the FY20 results reported by ANZ, NAB and Westpac as well as the 1Q21 trading update from CBA have vindicated this view. One of the pleasing elements of recent bank reporting was that credit impairment charges were generally significantly lower than consensus expectations.

While revenue growth prospects for the sector are not attractive, we believe the improving asset quality outlook is supportive of the dividend outlook. The down-trend seen in loan repayment deferrals across the sector is encouraging and if there is not a significant uptick in arrears or non-performing loans once deferral periods come to an end, then we believe APRA may remove dividend restrictions altogether. Also supporting the dividend outlook for the major banks are the strong CET1 capital positions.

Recent positive developments with regards to a potential rollout of a COVID-19 vaccine in coming months are further supportive of the asset quality outlook, and we consequently see an increasing probability – albeit still low – of the major banks releasing credit loss provisions over the next six months.

While major bank bears may be shifting their focus away from asset quality concerns to net interest margin (NIM) concerns, we only expect modest NIM contraction over the next couple of years. We expect the NIM outlook to be supported by: 1) home loan standard variable rates not being cut following the RBA reducing the official cash rate to 10bps; 2) strong growth in at-call customer deposits; and 3) access to the RBA's Term Funding Facility. **Westpac** remains our preferred major bank.

Recent publications

NAB
HOLD TP A$20.00
Not much on asset quality to excite bears

ANZ
ADD TP A$22.50
Much to take heart from in this result

WBC
ADD TP A$21.50
Dividend outlook improving

CBA
REDUCE TP A$63.00
Quality but overvalued

Ranking	Stock	Recommendation	Share Price	Target Price	Dividend Yield	Gross Yield	12m Forecast TSR
1	WBC	ADD	$20.28	$21.50	4.3%	6.2%	12%
2	ANZ	ADD	$22.88	$22.50	4.3%	5.6%	4%
3	NAB	HOLD	$23.04	$20.00	3.9%	5.6%	-8%
4	CBA	REDUCE	$80.25	$63.00	3.3%	4.7%	-17%

Source: IRESS, MORGANS. Data at 1 December 2020.

Diversified financials – macro settings on the improve

Sector M&A has escalated via the recent indicative take-over offers for Link Administration and AMP, although these look opportunistic as we don't think the mooted bid prices are yet high enough to secure board endorsement. Favoured large-cap Macquarie Group has also benefitted from the realisation of its Nuix business to be listed at a value of ~A$1.8 billion. MQG looks well positioned to benefit from improving macro settings (economic growth recovering, loose monetary policy) through its more cyclical businesses.

Key news to the general insurers was the recent loss of the Business Insurance test court case, which ultimately increases their potential liabilities to COVID-19 lockdown claims. IAG subsequently recently raised $750m of new equity capital as a direct result of this. While a disappointing outcome for the insurers, we do feel recent provision increases and reducing lockdowns in Australia, has largely put this issue behind them. We also expect the insurers to increase prices which will benefit top-line growth and margins. These factors, together with an improving banking environment for bad debts, were enough for us to move Suncorp to an ADD on the improving outlook, similar to QBE.

Solid investment markets globally have been supportive for FUM growth and investor sentiment supporting inflows across the fund managers. Our preferred portfolio holding remains **Magellan Financial**, however the potential for a sustained rebound in 'value' orientated markets such as the UK and Europe (heavily impacted by COVID) led us to recently upgrade **Pendal Group to an ADD**.

The current market rotation out of tech stocks looks to have realised an opportunity to add to positions in buy-now-pay-later stocks. While Afterpay continues to execute well, we prefer **Zip Co** on valuation grounds, noting also that Z1P's October update saw its annualised transaction volume rise by almost A$1bn over the past month (A$4.8bn vs A$3.8bn in September).

Recent publications

Magellan Financial
ADD TP A$61.05
Jumping into new territory

Pendal Group
ADD TP A$7.02
FY21 should see improving flows trend

Zip Co
ADD TP A$9.80
Good momentum continues

Resources and energy – energy rotation builds momentum

While gold has fallen as investors take a more positive view on a potential "return to normal" through 2021, we believe the recovery path from COVID-19 will be bumpy. This may see the market's appetite for risk alternate quickly in 2021, presenting trading opportunities, especially in gold stocks which maintain historically high margins even at lower gold prices. Ramelius Resources is our key pick to benefit from any such activity in the short term.

Nickel and copper stand to benefit from green policies promoting electrification along with ongoing economic stimulus. At the same time copper supply has declined with the world's major copper mines getting older and deeper, while major nickel sulphide discoveries, the form of in-ground nickel currently best placed to supply the battery market, have been few and far between. These market dynamics present copper and nickel (through nickel sulphide miners) as attractive investment exposures. Panoramic Resources is a pure-play nickel sulphide exposure set to feature in sector consolidation.

Beyond the big sector rotation we have seen over the last month, which has benefited beaten up cyclicals (like energy), we are gaining increasing conviction that the oil market is showing early tangible signs of sustainable recovery. We do not expect oil to fully recovery until the bulk of Covid-impacted demand returns, which is largely impacted given 60% of oil demand comes from transportation (vehicle/shipping/aviation). By the time this unfolds however we would expect energy stocks to be trading at peak cycle valuations. In the meantime we are seeing positive greenshoots of an initial recovery with global oil inventories starting to decline (for the first time in 2020), global oil price consensus forecasts increasing over the last month (for the first time in 2020), a bout of US dollar weakness which could accelerate in 2020 and the significant progress towards a Covid vaccine. Of these factors, a weakening US dollar could prove the most significant in 2021.

Comparing the major commodities, oil has proven to be the best way to play a falling US dollar (biggest negative correlation) over the last decade, and with the US elections settled and global growth expectations improving, we expect this could be an opportune time to add this exposure. We also see the ability for US shale oil supply to rebound as significantly impaired by the financial damage sustained through the downturn, with a lack of access to capital likely to hamper a recovery in shale supply outside of the US majors. Combine this all with low market valuations on energy stocks and it sets up a very bullish picture on a 1-2 year view. Our top sector picks are Santos, Beach Energy, Senex Energy and Karoon Energy (with KAR holding the biggest sensitivity to oil prices).

Recent publications

Oil & gas
Turn in oil market starting to materialise

Australian Unity launches first MCI offer

Morgans is pleased to have been appointed Arranger and Joint Lead Manager to Australia's first ever MCI Offer. Over its 180-year journey, Australian Unity has grown organically, through strategic mergers and diversifications into new activities to build a portfolio of diversified, but thematically linked, businesses across Aged Care, Home Care, and Health Insurance, as well as Banking and Wealth.

Australian Unity's purpose is to deliver value to members and the broader community through its portfolio of products and services with a strong focus on delivering social value. It seeks to help individuals and communities through the delivery of wellbeing products and smart solutions; such as partnering with Deakin University to deliver the Australian Unity Wellbeing Index.

This Offer will allow Australian Unity to pursue near-term growth opportunities as well as invest capital across the Group where third-party funding has historically been utilised. Proceeds may also be used for merger and acquisition opportunities, including to increase investment in social infrastructure.

MCIs have been created exclusively for mutual (member-owned) entities so they can access permanent capital without compromising their status as a mutual entity. MCIs also decrease Mutuals' sole reliance on retained profits as a source of new capital. This innovation has also created an opportunity for investors seeking higher levels of income by incorporating MCIs into a diversified income portfolio.

Australian Unity MCIs will be ASX listed and provide investors with semi-annual fully franked dividends; equating to a gross yield of 7.14%. Similar to payments for preference shares, capital notes and shares, MCI dividends are discretionary and non-cumulative.

For more information contact your Morgans adviser to obtain a prospectus and discuss suitability.

180 YEARS Australian Unity Real Wellbeing

Travel & tourism – vaccine success and borders reopening see travel stocks soar

Not surprisingly, the travel stocks have rallied hard on positive vaccine news and domestic borders reopening. However we still expect that the journey back to normal for these companies is some way off.

The good thing is that a domestic travel recovery is now underway with most Australian borders open.

However, we expect that it will still take some time for international travel to resume in the absence of a travel bubble to countries with low COVID-19 cases. Travel to the US and EU is unlikely until at least the last quarter of 2021.

On the back of vaccine success, Helloworld Travel (HLO), has said it is hopeful that FY23 will see a return to its previous level of revenue. This was previously targeted in FY24/25.

First to break even in the travel sector should be Corporate Travel Management (CTD) followed by HLO given their low cost bases.

In regards to Webjet, its consumer business, Webjet.com, should quickly be profitable with domestic travel; however, its much bigger hotels B2B business will be a late cycle play given it is exposed to international travel, particularly in Europe.

Flight Centre's corporate travel business should be profitable late in the 4Q21; however, its leisure business won't be until the end of 1H22 and will require some international travel.

While we expect the entire sector will appreciate on any positive vaccine news, our key pick in the travel sector remains CTD. CTD can be highly profitable on domestic travel alone. Its recent acquisition of Travel & Transport now gives it additional leverage to the lucrative US East Coast travel market and we think their synergy target is conservative.

Recent publications

Corporate Travel Management
ADD TP A$20.50
Stepping up to the majors

Flight Centre Travel
HOLD TP A$13.60
It's a long journey back

Helloworld
ADD TP A$2.28
Break-even is within reach

Best wishes for the festive season and for health and happiness throughout the year.

Recent initiations

Access Innovation Holdings – ADD PT A$1.35	AIM provides high accuracy, near real-time, voice transcription and translation. It was founded in 2003 to bring equal access to the hard-of-hearing community, and after perfecting its technology expanded into new verticals and countries.
MyDeal.com – ADD PT A$1.70	MyDeal (MYD) is an online retail marketplace, facilitating the sale of products (predominantly furniture and household goods) between customers and sellers on its platform.
The Reject Shop – ADD PT A$8.89	TRS is Australia's largest (c350 stores) discount variety retailer, targeting value-conscious consumers with an average price of A$5 per item across its 10k SKU range of everyday and homeware goods.
Breville Group – ADD PT A$29.18	BRG is a global player in the design, development and distribution of consumer appliances. It operates mainly across the Breville, Sage, and Kambrook brands over 3 key market segments: beverage; cooking; and food preparation.
Empire Energy – SPECULATIVE BUY PT A$0.52	Empire Energy is a junior oil and gas company with assets in the USA and in the Northern Territory. The US assets produce gas from in the Marcellus and Utica basins while the Northern Territory assets are being explored and appraised.

Morgans 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.

Key additions this month include **Orica, Lovisa, Bega Cheese, GrainCorp, Inghams, Mainstream and Coronado**

Refer to our **Updated Best Ideas** for more **www.morgans.com.au/stockpicks**

Company	Sector	Size	Risk	Price	12m price target	Dividend yield	Gross yield	12m TSR
Aristocrat Leisure (ALL)	Consumer Discretionary	Large	Moderate	$31.77	$37.31	1.40%	1.40%	19%
Coles Group (COL)	Consumer Staples	Large	Lower	$18.26	$19.40	3.40%	4.90%	10%
Santos (STO)	Energy	Large	Moderate	$6.57	$7.05	1.40%	1.40%	9%
Macquarie Group (MQG)	Financials	Large	Moderate	$140.95	$147.05	2.80%	3.30%	7%
QBE Insurance Group (QBE)	Financials	Large	Moderate	$9.96	$12.07	4.30%	5.30%	25%
Westpac Banking Corp (WBC)	Financials	Large	Lower	$20.27	$21.50	4.30%	6.20%	10%
Aurizon Holdings (AZJ)	Industrials	Large	Lower	$4.27	$4.76	6.20%	8.10%	18%
Amcor (AMC)	Materials	Large	Lower	$15.34	$17.80	4.20%	4.20%	20%
Rio Tinto (RIO)	Materials	Large	Moderate	$115.98	$103.00	5.10%	7.20%	-6%
BHP Group (BHP)	Materials	Large	Moderate	$42.39	$39.40	4.30%	6.20%	-3%
Sydney Airport (SYD)	Industrials	Large	Moderate	$6.70	$6.56	0.00%	-	-2%
Orica (ORI)	Materials	Large	Moderate	$16.21	$18.95	2.60%	2.60%	20%
APA Group (APA)	Utilities	Large	Lower	$10.11	$11.07	4.90%	5.70%	14%
TPG Telecom Ltd (TPG)	Communication Services	Mid	Moderate	$7.64	$8.71	1.50%	2.10%	15%
Beach Energy (BPT)	Energy	Mid	Higher	$1.88	$2.12	1.10%	1.50%	14%
Magellan Financial Group (MFG)	Financials	Mid	Moderate	$57.71	$61.05	3.90%	5.20%	10%
ResMed Inc (RMD)	Health Care	Mid	Moderate	$28.07	$30.99	0.80%	0.80%	11%
NEXTDC (NXT)	Information Technology	Mid	Moderate	$11.32	$13.89	0.00%	-	23%
Incitec Pivot (IPL)	Materials	Mid	Moderate	$2.43	$2.50	2.40%	2.90%	5%
Lovisa (LOV)	Consumer Discretionary	Small	Moderate	$11.07	$12.78	1.40%	2.00%	17%
Corporate Travel (CTD)	Consumer Discretionary	Small	Moderate	$19.32	$20.50	0.00%	-	6%
Eagers Automotive (APE)	Consumer Discretionary	Small	Moderate	$13.17	$13.89	3.70%	5.30%	9%
Redbubble (RBL)	Consumer Discretionary	Small	Higher	$5.48	$6.31	0.00%	-	15%
Breville Group (BRG)	Consumer Discretionary	Small	Moderate	$23.99	$29.18	1.90%	2.70%	24%
Jumbo Interactive (JIN)	Consumer Discretionary	Small	Moderate	$14.14	$13.89	2.80%	2.80%	1%
Bega Cheese (BGA)	Consumer Staples	Small	Moderate	$5.30	$6.10	2.10%	3.00%	17%
GrainCorp (GNC)	Consumer Staples	Small	Moderate	$4.45	$4.79	2.40%	2.90%	10%
Inghams (ING)	Consumer Staples	Small	Moderate	$3.08	$3.76	4.90%	7.00%	27%
Senex Energy (SXY)	Energy	Small	Higher	$0.34	$0.52	0.00%	-	53%
Karoon Energy (KAR)	Energy	Small	Higher	$1.00	$1.59	0.00%	-	58.60%
Mainstream Group (MAI)	Financials	Small	Moderate	$0.96	$0.94	1.10%	1.10%	-1.10%
Zip Co (Z1P)	Financials	Small	Higher	$5.53	$9.80	0.00%	-	77.20%
Kina Securities (KSL)	Financials	Small	Higher	$0.94	$1.55	10.70%	10.70%	75.80%
Volpara (VHT)	Health Care	Small	Higher	$1.39	$1.71	0.00%	-	22.80%
Mach7 Technologies (M7T)	Health Care	Small	Higher	$1.28	$1.49	0.00%	-	16.50%
Acrow (ACF)	Industrials	Small	Higher	$0.38	$0.40	4.70%	6.70%	9.90%
PWR Holdings Limited (PWH)	Industrials	Small	Moderate	$5.14	$5.10	2.00%	2.90%	1.30%
People Infrastructure (PPE)	Industrials	Small	Moderate	$3.60	$3.30	3.10%	4.40%	-5.40%
Alliance Aviation Services (AQZ)	Industrials	Small	Moderate	$3.84	$4.40	3.90%	5.50%	18.50%
Catapult Group (CAT)	Information Technology	Small	Moderate	$1.92	$2.45	0.00%	-	27.70%
Nufarm (NUF)	Materials	Small	Moderate	$4.30	$5.10	0.50%	0.70%	19.10%
Coronado Global (CRN)	Materials	Small	Higher	$1.13	$1.31	0.00%	-	15.70%
Regis Resources (RRL)	Materials	Small	Higher	$3.82	$4.57	4.20%	6.00%	23.90%
APN Conv. Retail REIT (AQR)	Real Estate	Small	Lower	$3.65	$3.92	6.00%	6.00%	13.50%
Aventus Group (AVN)	Real Estate	Small	Moderate	$2.64	$2.75	6.30%	6.30%	10.60%
Waypoint REIT (WPR)	Real Estate	Small	Lower	$2.78	$2.88	5.70%	5.70%	9.20%

Source: Morgans. Data as at 8 December 2020.

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