AFTER COVID-19 RECOVERY STOCKS

The favoured ten for private clients

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The depth and duration of the global COVID-19 pandemic and the resultant global recession is far from clear.

However, after examining all of our analysts' buy-rated stocks with a market capitalisation above $1.0 billion, we have identified ten of them as cyclical recovery stocks "on the other side" of COVID-19 with strong balance sheets, which we particularly like for private clients:

- **Aristocrat Leisure (ALL):** develops, manufactures and sells gaming content, platforms and systems. Group revenue consists of land-based gaming (27.7%) involving the placement of gaming machines in customer venues for no upfront cost and then leasing the games/ titles for a recurring revenue stream; land-based outright sales of gaming machines (31.6%); and digital (40.7%) encompassing the monetisation of social casino and casual games/ titles.

  The group has a dominant position in the North American gaming industry and the land-based operations should underpin medium term growth while the digital business offers opportunities in a rapidly growing market after COVID-19.

- **ANZ Banking Group (ANZ):** the bank has three major operating divisions encompassing Australia Retail and Commercial, New Zealand Retail and Commercial, and Institutional (transaction banking, loans and specialised finance, and risk management services).

  During the COVID-19 pandemic, the group is providing unprecedented financial assistance packages for its customers, especially small and medium businesses and retail customers, but much improved economic growth after the pandemic should provide a solid lift to profitability.

- **Macquarie Group (MQG):** a global investment bank with an extensive range of operations including asset management; banking and financial services; corporate and asset finance; commodities, equities, fixed income and currencies; and corporate advice and transactions.

  A key attraction is the group's ability to switch its emphasis between annuity-style and markets-facing operations to suit changing financial conditions and optimise returns during and after COVID-19.

- **Premier Investments (PMV):** owns the retailer Just Group, which operates a number of specialty clothing chains—Just Jeans, Jay Jays, Portmans, Jaqui. E, Peter Alexander and Dotti—as well as Smiggle, which sells children's bags, lunch boxes , drink bottles, pencil cases and stationery in over 20 countries.

  The impact of COVID-19 has resulted in the group temporarily closing all retail stores in Australia, New Zealand, the United Kingdom and Ireland and refusing to pay any rent globally for the duration of the shutdown.

  With a strong online presence, accounting for almost 15% of the relevant group sales, and a very strong balance sheet, the group is well placed to survive COVID-19 and emerge " on the other side" with a higher market share in its retail categories.

- **Flight Centre Travel Group (FLT):** one of the world's largest leisure and corporate travel agencies with group earnings derived from Australia and New Zealand (46%); Americas (17%); Europe, Middle East, and Africa (34%); and Asia (3%).

  COVID-19 has virtually halted all global travel as governments imposed national "shutdowns" and travel restrictions. However, the group's current $700 million equity raising combined with the foreshadowed $1.9 billion reduction in annualised operating expenses should allow a survival time of up to 15 months of nil revenue before

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emerging “on the other side” of COVID-19.

- **Qantas Airways (QAN):** operates domestic and international passenger and freight services through the core Qantas brand and the low cost Jetstar brand, which are complemented by the highly profitable Loyalty (Frequent Flyer) program.

  COVID-19 has resulted in unprecedented travel restrictions and grounding of aircraft, which could persist for another six months for the domestic market and until early 2021 for international travel.

  We believe that Qantas can survive up to 12 months of no flying on the back of the Loyalty program, cost reductions, and available liquidity (cash and undrawn debt) of almost $4 billion.

  However, the earnings recovery “on the other side” of COVID-19 may prove to be protracted because travellers’ confidence will need to be restored.

- **Mirvac Group (MGR):** the ownership and management of a commercial property portfolio –61% office, 30% retail, and 8% industrial –currently accounts for 59% of group earnings. The impact of COVID-19 will reduce retail and, to much lesser extent, office rental income over the next two years but thereafter the portfolio should re-emerge as a provider of a relatively secure income stream.

  Commercial property development represents around 9% of group earnings and is largely de-risked through a high level of pre-commitments.

  The residential operations, encompassing masterplanned communities and apartments, generate 30% of group earnings and after an expected slump in settlements in fiscal 2021, we expect a slow recovery with the passing of COVID-19.

  In addition, the group’s strong balance sheet allows it to take advantage of any COVID-19 ruptures to acquire properties and/or development sites.

- **BHP Group (BHP):** the world’s largest resources company with earnings derived from iron ore (69%), copper (17%), petroleum (9%), and coal (5%).

  The group’s strong balance sheet and low cost operations mean that it is very well positioned to benefit from any improved commodity price environment after COVID-19.

- **Worley (WOR):** a global company providing engineering services, project management and maintenance to three broad sectors –energy (hydrocarbons and power), chemicals (refining, petrochemicals, and chemicals) and resources (minerals and infrastructure).

  The composition of earnings is currently 50% from energy, 34% from chemicals, and 16% from resources.

  The COVID-19 pandemic and the accompanying collapse in oil prices currently present a challenging environment but economic recovery together with a rebound in oil prices after COVID-19 should see improving activity levels in the group’s markets.

- **Origin Energy (ORG):** the group’s two divisions are Energy Markets and Integrated Gas, which account for 44% and 56% of aggregate earnings respectively.

  Energy markets is an integrated utility business, which operates gas-fired and coal-fired power stations and supplies electricity and gas to the retail, business and wholesale markets.

  Integrated Gas primarily comprises the group‘s 37.5% shareholding in Australia Pacific LNG, which is Australia’s largest CSG to LNG export project.

  After COVID-19, we expect a recovery in energy demand by the business sector to boost earnings in Energy Markets, and a higher oil price to flow through to higher LNG prices and then higher earnings in Integrated Gas.

Note: refer to our latest company research and contact your adviser for more information.

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