



## Weekend Australian

Saturday 4/01/2020

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We've asked some of the Wealth section's leading contributors to nominate their best ideas for the year ahead. Wealth editor **James Kirby** and advisers **James Gerrard**, **Will Hamilton** and **Elizabeth Moran** look at the wider world of investment choices, while **Tim Boreham** takes a tour of the sharemarket.

# Fifty investment ideas for 2020

TIM BOREHAM



## Comeback kids?

### Westpac (WBC)

Is banking's basket case of 2019 worth a punt?

Post the money-laundering debacle, plenty of investors would say no. But as with Commonwealth Bank and its Austrac breaches, arguably the sell-off has been overdone.

Broker Morgans notes that at 10.6 per cent, the bank's tier-one capital ratio is well above that required by the regulator.

Along with sound credit quality, this should support Westpac's dividends long after the last executive head has been brought out on a stick.

Morgans assumes "no more than" \$2bn of civil penalties.

### Whitehaven Coal (WHC)

The leading pure-play coal miner has been hit by negative sentiment towards the sector, as well as a pro-

duction downgrade early last month.

The revision resulted from water shortages at its Maules Creek open-cut mine, which has created dust and haze issues.

Whitehaven shares lost a third of their value in 2019.

Broker Baillieu Holst reckons the shares are worth \$3.90, citing "robust" cash. The firm expects a 10.3c-a-share dividend, despite forecasting a 75 per cent earnings decline to \$140m.

### A2 Milk (A2M)

Sudden CEO departures are always unsettling and it was no exception at A2 after Jayne Hrdlicka resigned after only 18 months at the helm.

Hrdlicka's exit reportedly resulted from ongoing boardroom tension about the pace of change she was driving. Whatever the case, the China-focused A2 has performed solidly, with manage-

ment reiterating first-half revenue and profit expectations.

## Banking and fintech

### FlexiGroup (FXL)

Amid the hype about the \$7.7bn market cap Afterpay, investors forgot that FlexiGroup has offered

'buy now pay later' (BNPL) consumer financing for more than two decades.

The trouble is, FlexiGroup's BNPL business covered two confusing products and had not been promoted. This year the company introduced a single product — Humm — and made more noise about its existence.

With a 17 per cent share of the local BNPL market, FlexiGroup is ascribed a relatively meagre \$785m market valuation.

### Identiti (ID8)



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If financial institutions ever need reminding about the importance of good paperwork with overseas client transactions, Westpac's money-laundering debacle dramatically highlights the dangers.

Backed by foundation client HSBC, Identitii has developed a blockchain-based platform to provide relevant information along with the remittance, such as who the payment is from and what it is for.

According to Identitii chief Nick Armstrong, collecting missing information to support a transaction costs the banks \$US48bn a year.

#### Cashwerkz (CWZ)

Cashwerkz enables depositors to choose the best term deposit from a panel of financial institutions without undergoing burdensome identity tests.

The group facilitated \$1.02bn of transactions in the 2018-19 year — up from \$324m previously — with its panel growing from 19 approved deposit institutions (ADIs) to 49.

Moreover, it chalked up \$1m of deposit revenue, in effect a commission from the ADIs receiving the business.

Cashwerkz needs to build a scalable business, but in a low-rate world its offering is certainly relevant.

#### Kina Securities (KSL)

The PNG-based bank and wealth manager might operate in a less than robust economy, but its capital adequacy levels put Australian banks to shame.

In September, Kina acquired ANZ's PNG retail and small business operations for about \$10m.

Broker Morgans forecasts \$190m of revenue and a \$57m net profit in the 2019 calendar year, rising to \$268m of turnover and an \$82m profit in 2020.

The stock yields 8.6 per cent, but with no franking credits.

### Coppertunities

#### OZ Minerals (OZL)

While the US-China trade war has kept the lid on prices for base met-

als including copper, explorers for the red metal have created investor interest.

**Alkane Resources (ALK)** and **Stavely Minerals (SVY)** have both run hard in response to exciting results at their respective projects in NSW and Victoria.

But for those who prefer a "here and now" copper exposure, sector stalwart OZ Minerals is hard to go past as it commissions its Carrapateena copper-gold mine in South Australia's outback.

#### Bougainville Copper (BOC)

This one is a raw punt on the island's recent overwhelming independence vote forging a restart of the giant Panguna copper and gold mine.

Bougainville Copper has been a zombie stock since the island's protracted civil war halted operations at Panguna in 1989. Since Rio Tinto divested its majority holding in 2016, Bougainville Copper has been controlled by the PNG and autonomous local authorities.

Panguna has an estimated untapped resource of \$60bn.

### Golden ideas

#### Northern Star (NST)

In buying a half share of the Kalgoorlie Super Pit for \$1.14bn, the leading gold miner joins the ranks of the major producers, and comes on to the radar of international investors.

On another lustrous note, management has confirmed that the turnaround plans for its acquired Pogo mine in Alaska are on target.

Northern Star shares have retreated about 30 per cent from their record high in late July.

#### Kalamazoo Resources (KZR)

Low-market-cap gold explorers offer the potential for leveraged returns regardless of the near-term gold price. But they need to make discoveries that count.

Victorian gold explorers are tipped to have a big 2020, with the excitement centred on the historic Bendigo gold fields and ASX-listed Canadian giant Kirkland Lake's

world class Fosterville mine.

Separately, **Catalyst Metals (CYL)** has not reported a gold resource yet, but has the honour of being backed by Australia's richest woman, Gina Rinehart.

Partnering Catalyst at its Tandarra project, **Navarre Minerals (NML)** is tipped as one to watch, with broker Hartleys valuing the stock at a 50 per cent premium to its current price. But arguably the Victorian gold stock offering the best upside is Kalamazoo, which has started an exploration program at the Castlemaine goldfield.

### Drugs and devices

#### Memphasys (MEM)

Given the poor success rate of IVF procedures, patients need all the help they can get and one way is to ensure the best-quality sperm is used in the first place.

Memphasys is developing a sperm separation device called Felix, which uses electrical charging techniques to isolate the best "swimmers".

Felix is being tested by listed fertility group Monash IVF. It has also been refinanced and overhauled.

#### Pharmaxis (PXS)

The respiratory drug developer had a late-year stumble after its partner Boehringer Ingelheim pulled out of funding its clinical program for fatty liver disease.

However, the German drug giant is still supporting the company's diabetic retinopathy program, while Pharmaxis has separate programs for other diseases including idiopathic pulmonary fibrosis, myelofibrosis and

diabetic retinopathy. Pharmaxis also has an approved drug for cystic fibrosis called Bronchitol.

### Road to prosperity

#### AP Eagers (APE)

The car dealership group's takeover of its listed rival Automotive Holdings comes at a torrid time for the industry, with tumbling new-car sales and a clampdown on lucrative insurance products.

The merger provides AP



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Eagers with the scale to cope with the temporary headwinds, as well as the longer-term challenge of electric and autonomous vehicles.

The union has generated \$13.5m of synergy savings, with an estimated \$16.5m more to come in the next 12 months.

### Bapcor (BAP)

The car industry pessimism has also affected the valuation of Bapcor, which owns the Burson and

Autobarn outlets and provides same-day delivery of car parts to mechanics and car retailers.

Bapcor generated a 5 per cent lift in profit to \$94m this year and management has guided to "at least mid-single-digit" profit growth in the current year.

### Flexible workspace

#### Servcorp (SRV)

Servcorp has been providing flexible office space since 1978, long before "collaborative co-working zones" became the inner-urban catchcry.

Servcorp shares have more than halved over the past three years because of what founder and CEO Alf Moufarrige dubs the "uncommercial behaviour" of the co-working upstarts.

With a presence in 23 countries, Servcorp has been investing in converting serviced office space to the more casual co-working arrangements.

### Fake meat

#### Jatenergy (JAT)

To committed carnivores, fake meat is fake news but the strong debut of the Nasdaq-listed Beyond Meat shows the concept is gaining traction with investors and consumers.

A Chinese-oriented supplier of goods such as milk powder, Jatenergy is entering the meat-free game via a joint venture arrangement. Its first products will be distributed via a large Shanghai intermediary.

The low-key Jatenergy turned

over \$66m last year and has cash of about \$16m.



### Next big thing in tech?

#### Beam Communications (BCC)

Beam is the only ASX-listed satellite equipment manufacturer, boasting Telstra and the world's biggest satellite operator as clients.

The group is profitable and growth should be driven by the recent launch of Zoleo, the world's first satellite device aimed at mainstream consumers.

#### Titomic (TTT)

Using advanced digital tech-

niques, Titomic produces titanium and metal products faster, more efficiently and cheaper than traditional manufacturers, helping ensure Australia maximises the potential of its mineral resources.

Titomic shares have risen almost fivefold since listing in September 2017

#### MGM Wireless (MWR)

MGM has struck paydirt with its Spacetalk device: a smartphone, watch and GPS for children aged five to 12.

In November the company said it had sold 12,800 Spacetalks in the first 21 weeks of the first half of the year, compared with 11,000 for the entire first half of 2018-19. Christmas sales were yet to come.

A recent deal with Sky UK ac-

cesses a market three times the size of Australia's.

### Cybersecurity

#### BetaShares HACK ETF

With online scams and data breaches proliferating, cybersecurity is emerging as one of the true secular growth themes.

Dozens of listed stocks now play in the sector, but why try to pick a winner? Aply bearing the ASX code HACK, the BetaShares Global Cybersecurity ETF is the only ETF in Australia that provides one-stop access to global cybersecurity companies including Symantec, CyberArk and Cisco.

### Listed investment companies

#### Global Masters Fund (GFL)

The listed investment company's reason for being is to provide Australian investors with a fractional exposure to the US-listed Berkshire Hathaway, the legendary Warren Buffett's investment vehicle. Berkshire Hathaway shares change hands for more than \$US330,000 each.

Global Masters is trading well below its pre-tax net assets per share valuation of \$2.48.

#### Bailador Technology Investments (BTI)

Trading at a stubborn net tangible asset discount, Bailador holds 10 local and offshore "expansion stage" tech stocks. Half the fund's \$140m asset valuation is accounted for by Siteminder, a platform that enables hotels to manage their room inventories.

Bailador also has a stake in Straker Translations, mortgage lender Lendi, open-source data platform Instaclustr and Standard Media Index (marketing and advertising data analytics).



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### Stocks Greta Thunberg would buy

#### Australian Ethical (AEF)

Australian Ethical is the pre-eminent ASX-listed ethical fund. Funds under management growing 42 per cent to \$3.42bn in the 2018-19 year while the stock more than doubled.

The growth has been driven by the fund's push into the superannuation sector, including reduced fee options and a sharper focus on advisers. The company has guided

to a December-half net profit of \$4.2m-\$4.6m, up 38 per cent at the midpoint.

#### Novonix (NVX)

Amid slumping markets for primary graphite and lithium material, Novonix has refocused from being a graphite miner to downstream battery technology.

Novonix has won a contract to supply lithium-ion battery anode material to Samsung in Korea — the first time such product has been sourced from anywhere other than Japan and Korea.

Broker Morgans expects a \$10m equity raising to fund a production ramp-up.

#### Integrated Green Energy Solutions (IGE)

The little-known company has developed a technique to convert waste plastic to fuel without the drawbacks of the commonly used method (pyrolysis).

IGES is furthering plans to build its first plant in the Port of Amsterdam, slated to produce 35 million litres of petrol annually. The Amsterdam plant is funded by an €18m (\$28m) facility from Rabobank, with separate debt funding available for other projects.

### Agribusiness

#### Angel Seafood (AS1)

Angel's oyster crop in the productive waters of Coffin Bay in South Australia is steadily growing to maturity. Oysters have been in short supply, attracting prices of

\$20-plus a dozen, and much more on restaurant menus. Export markets beckon.

#### Clover Corp (CLV)

Clover has built a global customer base for its patented additive to infant formula milk, based on encapsulated fish oil rich in omega 3 (also called DHA).

European regulators have mandated minimum levels of DHA in infant formula from February next year, and China is looking at following suit.

Clover shares surged 75 per cent in 2019, but there still appears to be upside for the solidly profitable, dividend paying entity.

#### Select Harvests (SHV)

The almond producer surprised the market with a rebound in crop yields in the year to September, with similar weather conditions continuing into the current year.

Higher water prices need to be carefully managed, but tight global almond supply means these costs could be offset by higher Aussie-dollar-denominated prices.

With 35 per cent of the company's trees yet to develop, orchard yields should expand further.

### Listed corporate debt

#### MCP Master Income Trust (MXT)

Credit investment trusts (LITs) offer exposure to a parcel of corporate debt and bonds with the promise of much higher yields than cash in the bank and with better capital protection than dividend-paying shares.

Investors receive a regular distribution, usually at a floating rate based on a margin above a benchmark rate.

The two oldest LITs are Metric Credit Partners MCP Master Income Trust and MCP Income Op-

portunities Trust.

In September, Partners Group launched its **Partners Group Global Income Fund (PGG)** after raising \$550m and Kohlberg Kravis Roberts then followed up with its \$750m **KKR Credit Income Fund (KKC)**.

Of course, higher yields mean higher risks.

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