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The Research Monitor

June Quarter 2020

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Q1 2020 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, fell sharply in the March quarter of 2020 following increases of 8.0%, 2.5% and 0.7% respectively over the previous three quarters. The March quarter saw returns of -24.3% in price terms and -23.4% including dividends, marking the worst quarter since December 1987.

Whilst we thought that we were likely to experience increased volatility in equity markets in 2020, few investors could honestly say a global pandemic was what they had in mind.

The advent of the new coronavirus outbreak is one of those events often referred to as "Black Swans" that are completely unforecastable but do happen from time to time.

It seems like a long time ago now, but equity markets began the year strongly, and investors expected 2020 to mark a return to better economic growth, particularly as the US and China settled on a stage-one trade agreement, which significantly reduced investors' concerns regarding ongoing trade wars. **Monetary conditions had also eased, particularly in the US, which also encouraged investors to look positively on equity markets, and accordingly, the S&P/ASX index hit a new all-time high on February 20.**

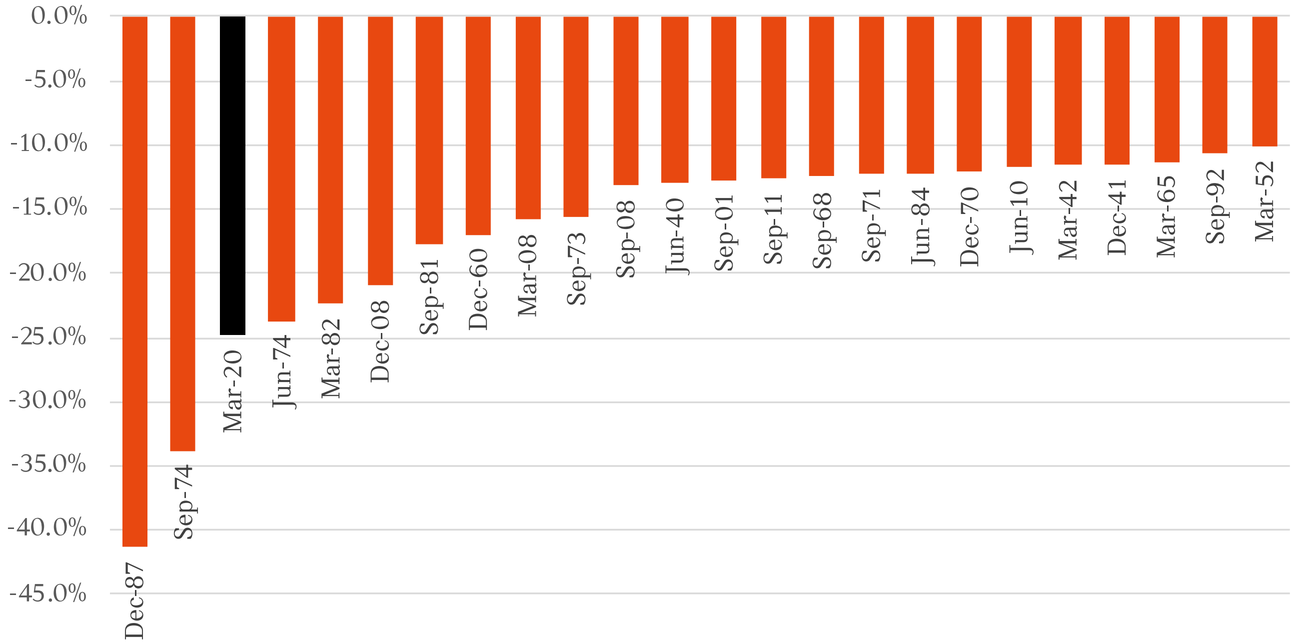
Sadly, this milestone was very short-lived, as it became clear that the coronavirus outbreak prevalent in China during January was spreading rapidly around the world. Initial hopes that the region could contain the virus in a relatively short time, such as in the manner of SARS in 2002–2003 and MERS in 2012, quickly dissipated. Once it became clear that this coronavirus was extremely contagious, new models began showing very large numbers of people infected with a high level of fatalities, particularly among the elderly.

Investors' initial concerns focused on a "supply shock" in China, as manufacturing was shut down in Wuhan and throughout the Hubei province. This was followed by a realization that demand in China for imported goods was also dropping rapidly, but it was not until Italy reported a dramatic increase in infections in early February that investors recognized the game had changed. **At this point, politicians, investors and the public became aware that the medical emergency was rapidly becoming an economic and monetary emergency.** As we moved through February and into March, it became clear that the only way to stop the virus from spreading at speeds that would overwhelm health services was to restrict peoples' movement and interaction for all but essential needs, including shopping for food, and to allow key workers to carry out critical jobs.

At this point, investors feared a global recession and that certain sectors of the economy would be closed completely for an indeterminate time. Investors with leverage quickly began to unwind positions, and this panic began to feed

	Sector	Performance	Market Cap
↗	Pharmaceuticals, Biotech & Life Sciences	6.3%	137,527
↘	Food & Staples Retailing	-0.8%	66,151
↘	Health Care Equipment & Services	-10.3%	54,785
↘	Utilities	-10.8%	30,062
↘	Food Beverage & Tobacco	-11.7%	32,652
↘	Telecommunication Services	-11.9%	43,128
↘	Materials	-23.8%	256,097
↘	Software & Services	-24.1%	37,239
↘	Retailing	-24.4%	49,526
↘	Insurance	-25.3%	50,062
↘	Commercial & Professional Services	-26.4%	33,949
↘	Transportation	-28.5%	65,729
↘	Banks	-28.7%	269,822
↘	Diversified Financials	-31.1%	65,605
↘	Real Estate	-34.8%	85,143
↘	Capital Goods	-37.2%	9,819
↘	Media & Entertainment	-37.4%	10,767
↘	Consumer Services	-40.1%	32,454
↘	Energy	-49.2%	50,684

Largest quarterly falls of more than 10% in Australian shares



Source: FactSet and Shaw and Partners

on itself as risk-parity funds and other systematic portfolios were forced to sell their underperforming equities in favor of cash.

Shortly thereafter, central banks and governments stepped in with dramatic combinations of monetary stimulus to offset liquidity concerns, particularly in the credit markets, and fiscal stimulus to provide businesses with enough time to get through the economic trough that was forming. These measures allowed investors to take a breath and consider the fact that China was beginning to overcome the medical emergency. As a result, restrictions on China's people and businesses were slowly lifted, which boosted economic activity. There was no apparent "light at the end of the tunnel," though markets experienced a strong rally in the last week of the quarter.

The Australian market was driven especially by the shifting sentiment toward the price war being waged between two of the biggest oil producers being the Russia and Saudi Arabia. The Energy Sector traded 49.2% lower in price terms.

As fears regarding a global recession in 2020 brought about by these and other confidence factors built, bond and equity markets responded. Firstly, we saw a steep fall in long term interest rates in both the United States and Australian bond markets. **Aussie long term bond yields went from 1.354% to 0.7314% and US long term bond yields went from 1.9184% to 0.6585% over the quarter**.

Among Australian equity sectors, performance was widely dispersed. At one end of the spectrum we have the Pharmaceuticals, Biotech & Life Sciences sector, containing heavyweight CSL Limited (CSL) which once again saw an increase, this quarter of 6.8% over the quarter and in stark contrast to the performance of the Energy sector which fell 49.2% in price terms and 48.2% including dividends.

The Bank sector was also weaker, down 28.7% as each bank seemed to experience more and more bad news regarding dividend cuts, compliance issues, capital raising etc. Given that the banks and pharma sectors make up 29.2% of the index, **investors who avoided the banks and stuck with the pharma sector would have handsomely outperformed the index once again in the March quarter.**

The largest component of the S&P/ASX 300 Index is still the Banks Sector (down to 19.4% index weight) but gaining fast is the Materials sector (18.4% index weight) which fell 23.8%, with bellwether BHP down 25.5%.

There were once again some spectacular returns amongst small companies, even as the broader Small Ordinaries Index fell 27.6% with ventilator manufacturer Fisher and Paykel Healthcare (FPH) up 36.7%, and digital storage company NextDC (NXT) up 35.6%. At the other end of the table was Ardent Leisure Group (ALG) which saw a 83.8% fall and highly geared Southern Cross Media (SXL) which fell 80.1%.

Global equity markets performed similarly to Australian markets in the March quarter, with the MSCI World ex Australia Index in Australian dollars down 20.4%.

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Brett Le Mesurier

Senior Analyst, Banking and Insurance

Banks and dividends

The issues confronting banks

The judgment of future bad debts which involves a decision on the length of the COVID-19 lock down, the speed of the recovery and which sectors recover quicker.

The impact of deteriorating credit quality on the risk weighting applied to loans.

The level of capital that needs to be retained.

The impact of the forthcoming higher loan loss rates on the pricing of loans.

The cost and availability of funding, both from deposits and the wholesale markets.

The credit practices to be adopted in view of rising bad debts.

The allocation of resources to deal with increasing levels of delinquent loans, intense regulatory scrutiny and the need to continually improve efficiency.

The actions of the regulator.

APRA has told banks to be mindful of the economic uncertainty in deciding on their interim dividends. Part of APRA's 7th April letter to all Authorised Deposit-taking Institutions (ADIs) and insurers is reproduced here:

During this period, APRA expects that ADIs and insurers will seriously consider deferring decisions on the appropriate level of dividends until the outlook is clearer. However, where a Board is confident that they are able to approve a dividend before this, on the basis of robust stress testing results that have been discussed with APRA, this should nevertheless be at a materially reduced level.

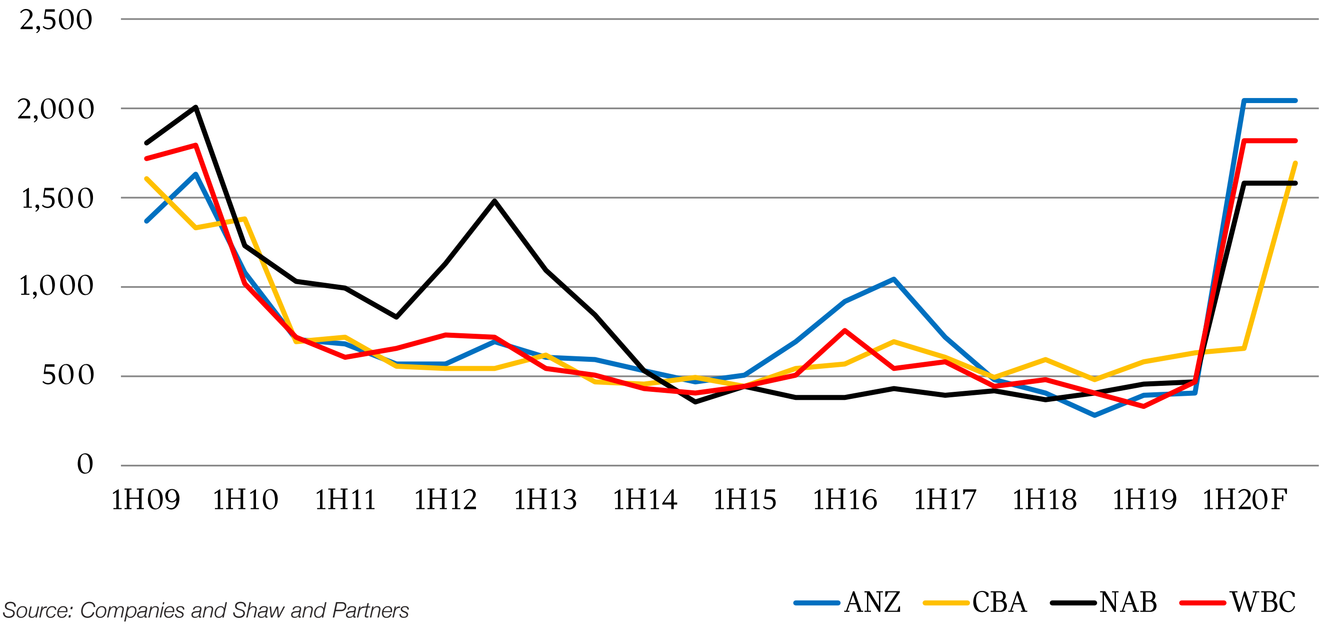
Dividend payments should be offset to the extent possible through the use of dividend reinvestment plans and other capital management initiatives. APRA also expects that Boards will appropriately limit executive cash bonuses, mindful of the current challenging environment.

We have already seen companies taking a careful approach to capital and dividends. Some examples of this are:

1. **Bank of Queensland** has already deferred a decision on its interim dividend;
2. **QBE Insurance** paid its final dividend on 9th April and within a week had raised US$750M from institutions when it said it had lost US$500M from its investments in 1Q20; and
3. **Challenger** sold many of its risky assets at possibly the bottom of the market to reduce its capital requirements.

Banks and Dividends

Bad debt charges for major banks ($m)



Source: Companies and Shaw and Partners

Actions which are unlikely to occur this year because of the increased focus on capital:

1. **IAG's** capital return following the increase in its capital of $450M from the sale of its Indian insurance business; and
2. **CBA's** $4B capital return following the sale of its asset management business, CFSGAM.

The bad debt charges of our major banks will be the major focus of the forthcoming 1H20 result. Some indication of what may be coming has been announced in the USA. Recently, JP Morgan said that the increase in the bad debt charge to cope with the COVID-19 fallout in 1Q20 was US$6.8B, which equates to 0.67% of its loans. Wells Fargo allowed for an additional US$3B bad debt charge in 1Q20, which equates to 0.3% of its loans.

The current forecast FY20 and FY21 bad debt charges for our major banks are 0.41%, 0.33%, 0.37% and 0.35% of credit exposure for ANZ, CBA, NAB and WBC, respectively. This represents 3 to 4 times the bad debt charges they experienced in FY19. The following chart shows this and puts them in the context of the bad debt charges since the GFC.

The forecast interim dividends for major banks are zero for WBC and 50 cps for ANZ. NAB has paid 30cps. WBC has a $1B after-tax provision for AUSTRAC in 1H20 which impairs its dividend paying ability.

All banks may decide its prudent to defer the declaration of interim dividends as they determine the implications of APRA's yet-to-be-published stress scenario.

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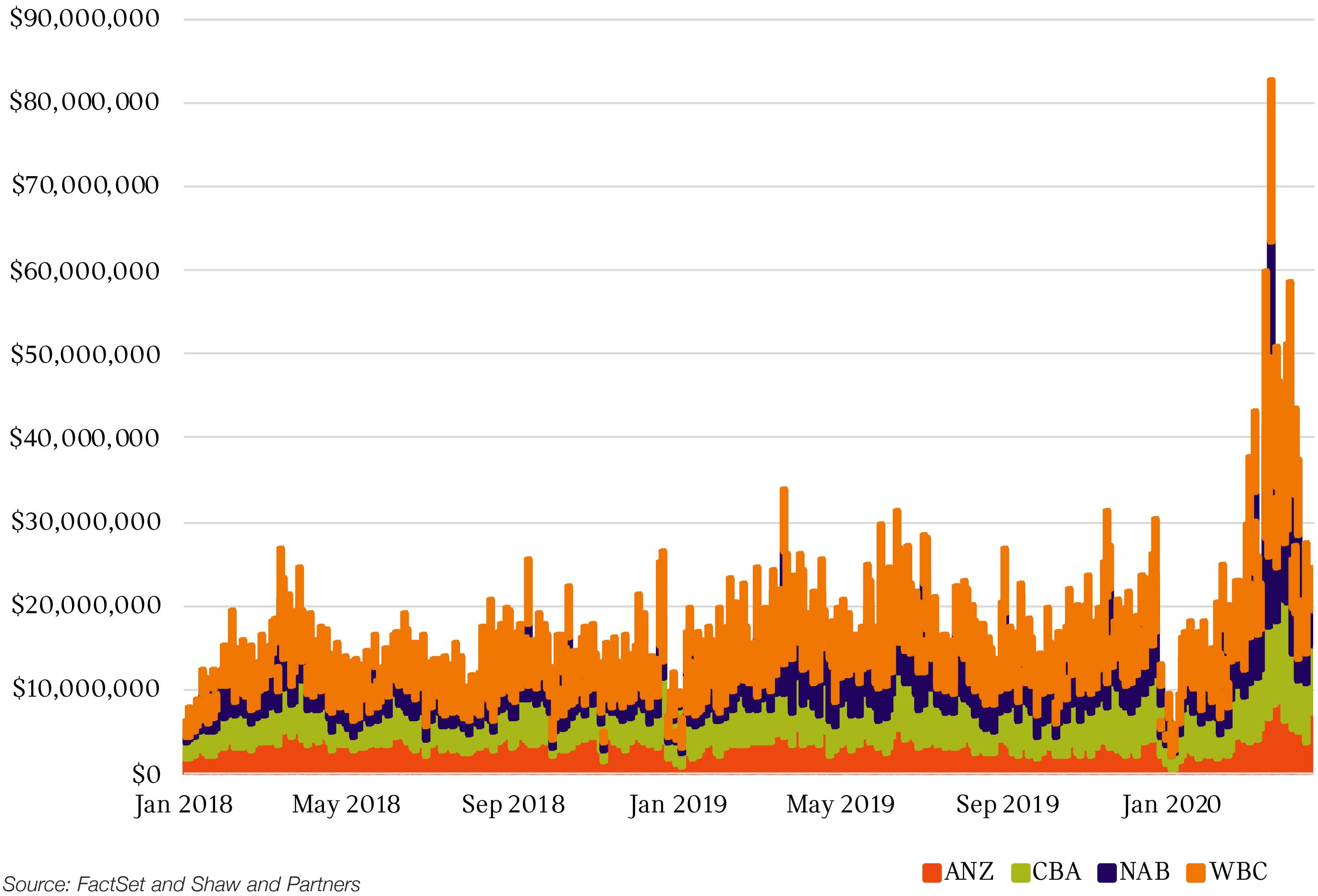
Credit Markets update and opportunities in Hybrid Securities

Cameron Duncan
Co-Head, Income Strategies

Major bank hybrid daily turnover



Source: FactSet and Shaw and Partners

Credit Markets Update

In financial markets' terms, the COVID-19 crisis has been characterized by extreme volatility across nearly all asset classes.

Even risk-free assets such as US and Australian government bonds displayed unprecedented volatility in early March, as investors looked to sell any liquid assets and realize cash.

Central bank actions taken to add enormous liquidity to the system via repo and the buying of government securities stabilized these markets. Meanwhile, credit markets having been impacted along with other "risk" markets, have staged an impressive rebound from lows on 23 March.

This was aided by the recent initiative from the Federal Reserve to buy corporate paper which had the effect of freeing up the primary issuance market to BBB and BB rated companies.

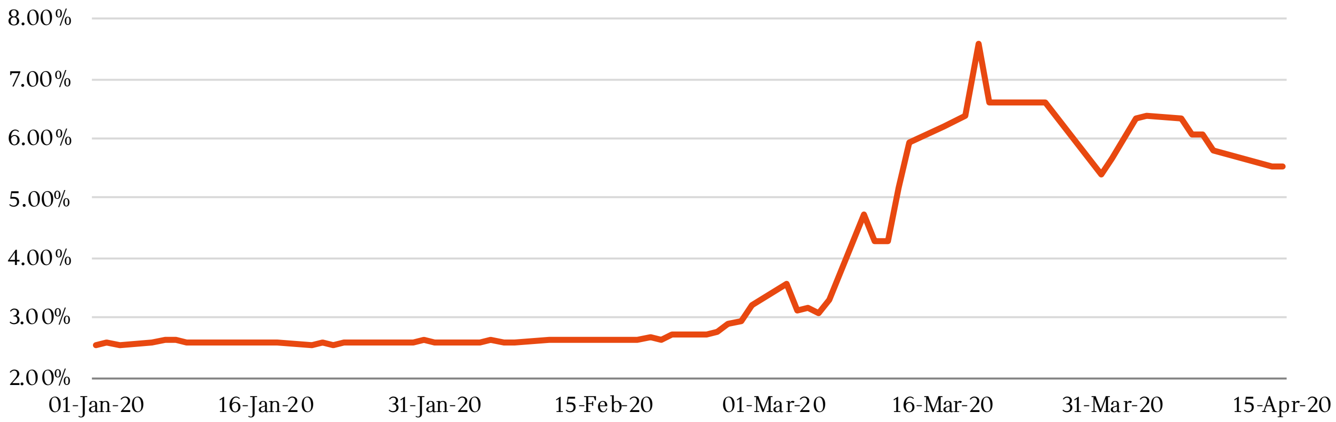
With the rush to cash that we saw in early to mid-March, most listed markets were heavily impacted by virtue of the liquidity they offer. Due to their transparency with an observable bid and offer, and being able to be traded by retail and institutional investors - albeit with great volatility - these securities offered a mechanism for investors to realize cash.

ASX Listed Hybrids

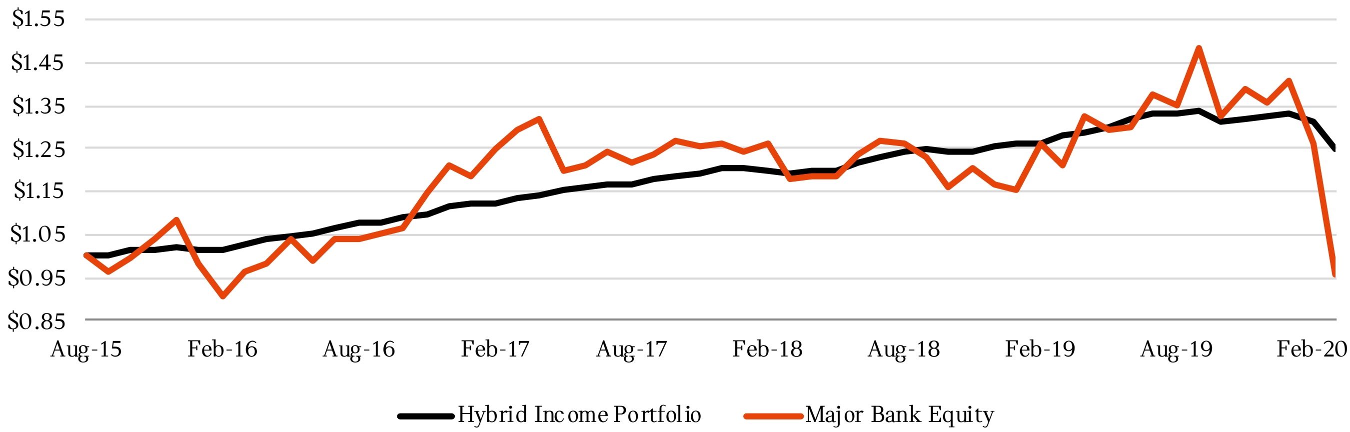
Where much of the "Over-the-Counter" debt market was locked up over March and into April, ASX listed major bank hybrids actually turnover rose from an average of $25m per day to > $50m per day.

This has presented some compelling opportunities across the bank hybrid universe. Investors may take advantage of this liquidity driven dislocation by undertaking the purchase of hybrid securities at significant discounts to their $100 face value. The median margin across financial hybrids has widened from 3.38% on 28 February to around 5.53% over three-month bank bill.

Australian major bank hybrid securities - Traded margins over BBSW



Hybrid Income Portfolio v Major Bank Equity



While there has been some concern over the certainty of hybrids being called at the optional call date due, Challenger not redeeming the CGFPA's recently, we note that subsequently BOQ has indicated its intention to redeem its OTC hybrid due for call in May, and also note that both NAB and Macquarie cash redeemed their NABPB and MBLPA securities in the latter part of March.

Furthermore, Challenger has relayed that APRA has no objection to Challenger applying to call CGFPA on any subsequent dividend date prior to the Mandatory Conversion date, which we expect them to do when it becomes feasible to market a replacement security in more stable market conditions.

While Hybrids have displayed far greater than normal volatility recently, it remains much lower compared to bank equity volatility. Furthermore, in an environment of impending lower bank equity dividends, hybrids have the advantage of their dividend stopper. The dividend stopper provision dictates that the full hybrid dividend must be paid if any part of the ordinary share dividend is paid. Even if no ordinary share dividend is paid, the hybrid dividend may still be paid in full.

Recently, we have seen equivalent hybrid securities in the UK, Europe and New Zealand continue to pay dividends even though the share dividends have been omitted for the current period at the insistence of their respective regulators.

This is a far more prescriptive stance than we have seen taken in Australia thus far by the Australian Prudential Regulatory Authority (APRA).

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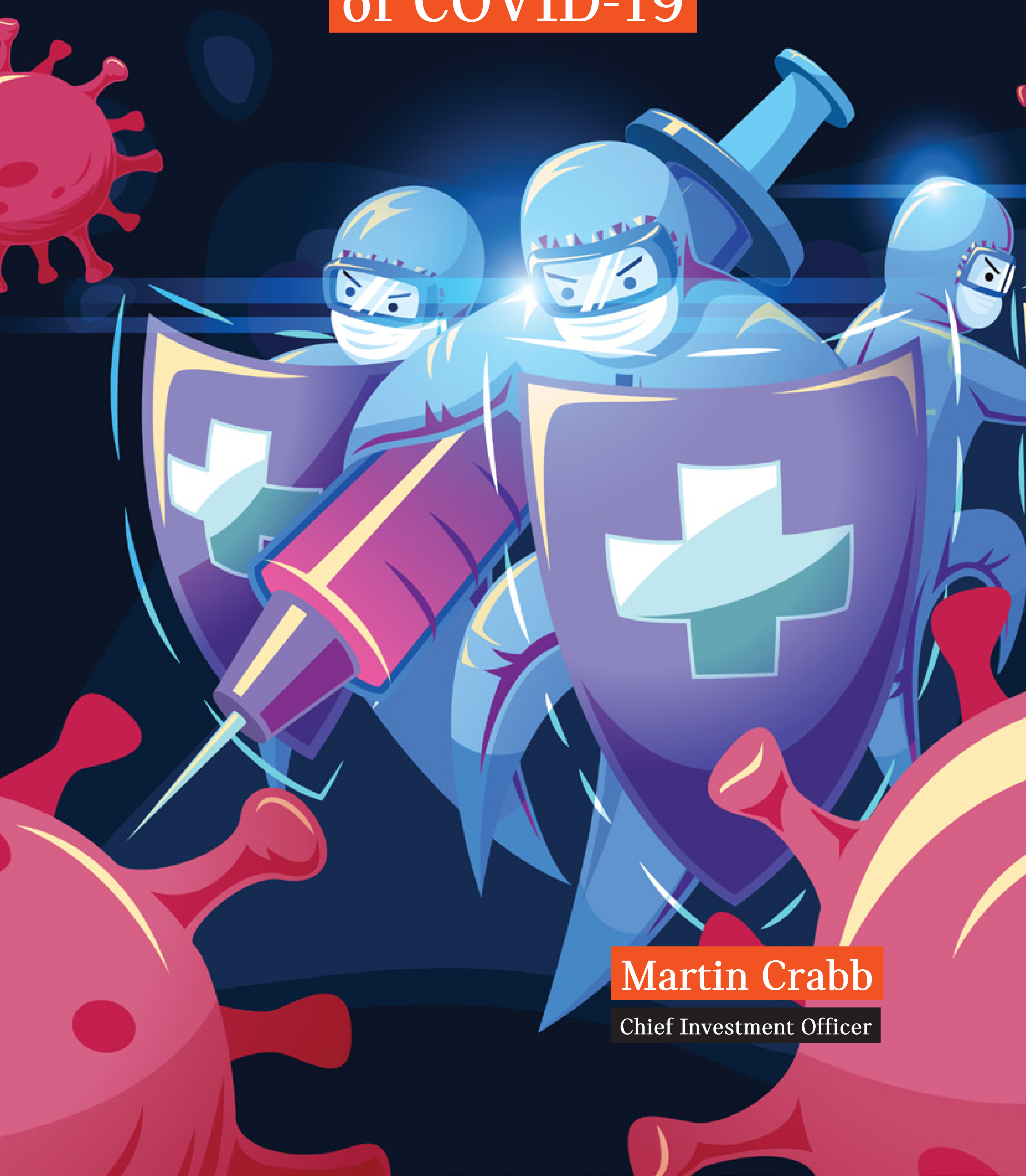
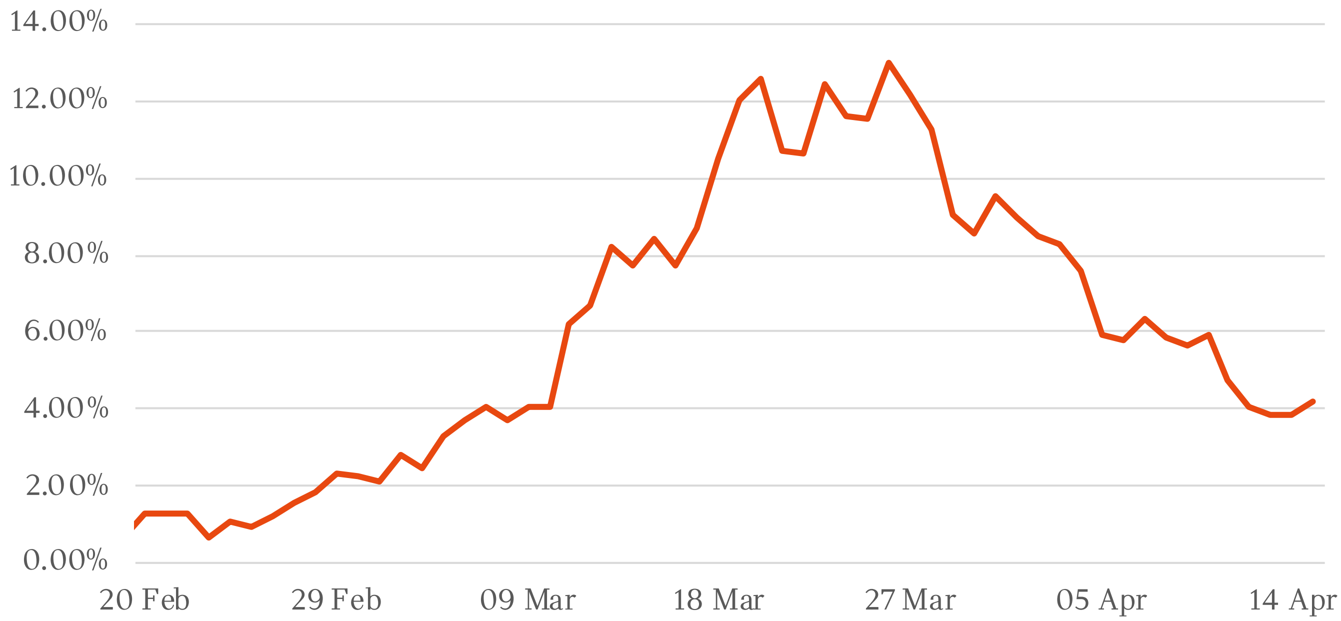
Flattening the curve of COVID-19



Martin Crabb
Chief Investment Officer

Daily rate of change



Source: Shaw and Partners

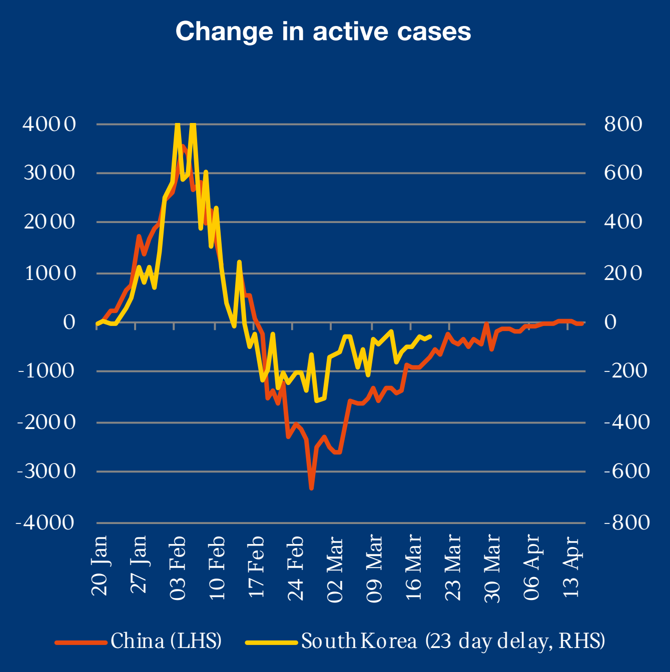
Much has been written about the COVID-19 pandemic so we don't want to simply repeat what has already been said, but rather seek to analyse the daily case data to ascertain the likely path of the health issues with a view to understanding how Governments are likely to react to normalise behaviour which in turn impacts companies, profits and dividends.

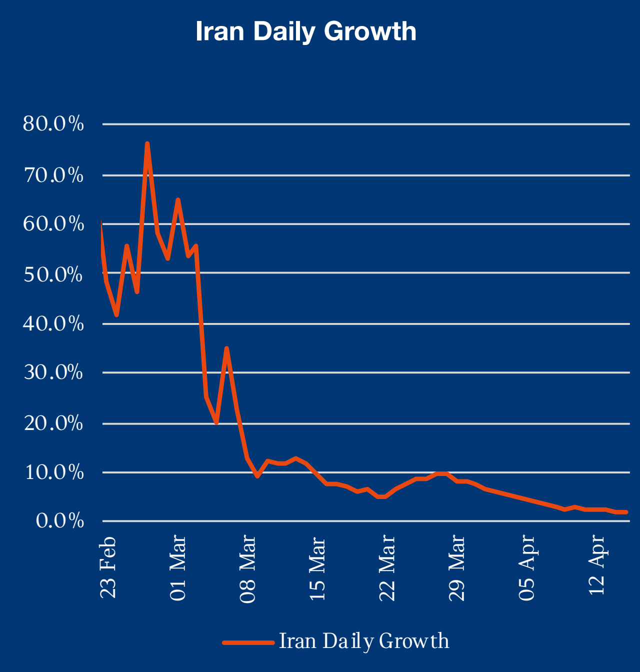
Firstly, we determine that the number of new infections follows a cumulative lognormal distribution. This function is common in nature and the virus will follow natural laws of contagion and fatality if untreated.

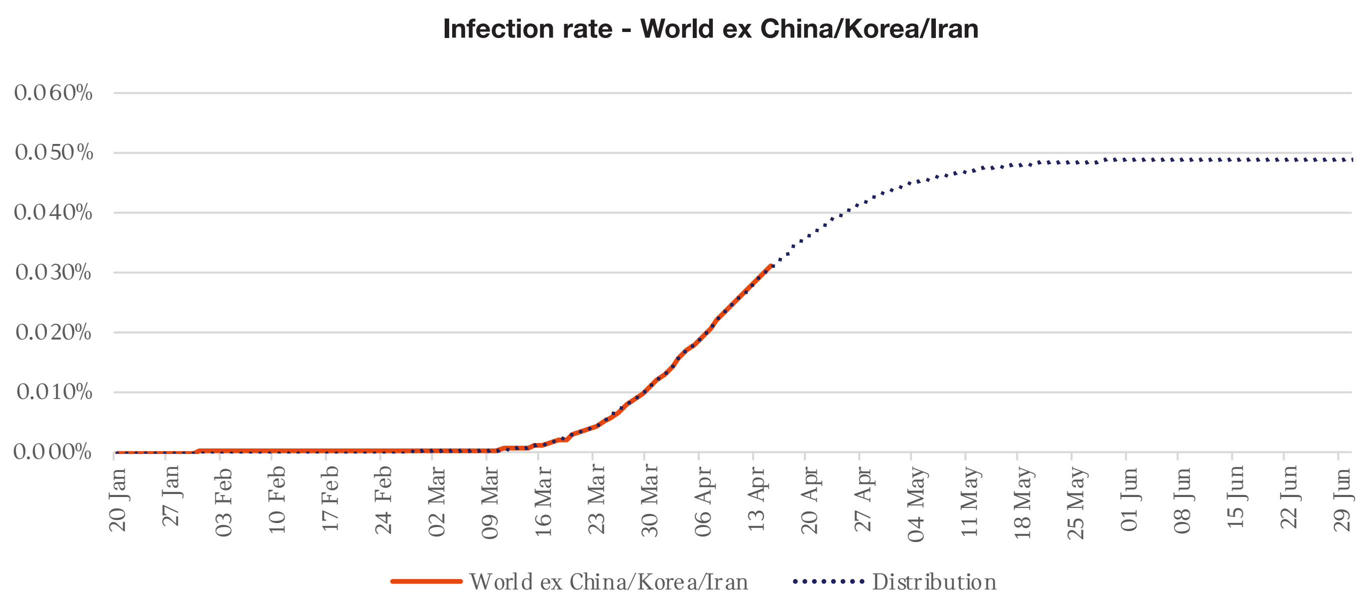
This is known as "flattening the curve". Be reducing the number of human interactions, we can slow the growth of the virus. The number of new cases is falling now suggesting this action is working.

The rate at which the number of new infections is one thing, but it is the number of "active" cases that is most important as (i) only active cases can pass the virus on to others, (ii) active cases is what drives demand for medical attention, and (iii) the number of future mortalities is a function of active, not infected patients.

To understand how active patients track new infections, we need to make some assumptions regarding how it takes for an infection to be resolved by either the patient recovering or the patient dying. This morbid question can be answered by looking at the experience of two countries that were early victims of the pandemic – China and South Korea. Here we look at the distance between the peak and the trough in new active cases. In both cases, it is between 23 and 25 days.







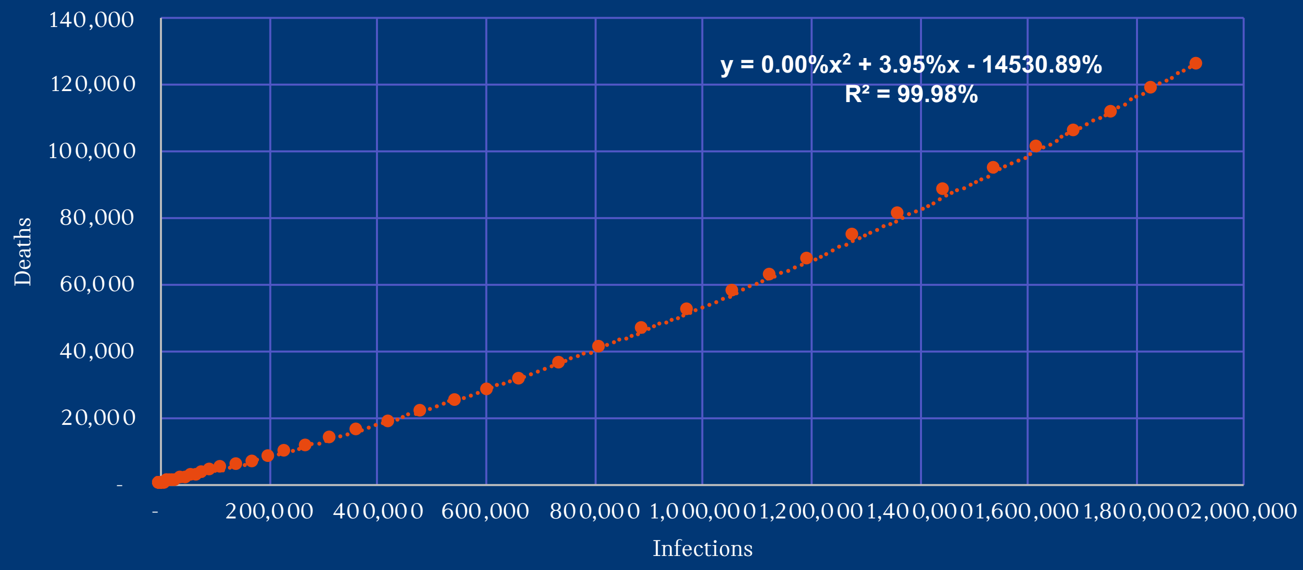
So, we can express the number of new active cases as (i) the number of new infections, less (ii) the number of new fatalities, and (iii) the number of cases recovering (which itself is an inverse function of the number of new infections 23-25 days ago).

The number of new infections is following a cumulative lognormal distribution for each country in the world, each having its own demographic, logistical and healthcare infrastructure differences. These impact the rate at which the virus grows, and the final infection rate that will be achieved given the social distancing and other containment measures made and their effectiveness. Iran is an interesting case in point. The virus seemed to be following a typical pattern, but then a second wave of infections seemed to set a new trajectory for the virus. Now it seems to be becoming under control.

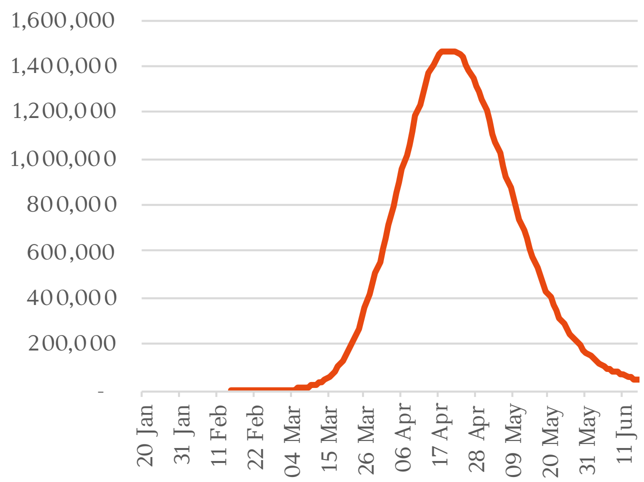
We exclude Iran, South Korea and China from our analysis of world COVID-19 due to the irregularities with Iran's data and also the earlier outbreaks in the latter two countries. Doing so presents a "clean" set of data which is behaving according to the mathematical model which suggests a final infection rate of 0.0489% of the population.

This model suggests that ultimately, 3 million people will contract the virus, roughly 50% higher than current infections, but that the number of new daily infections has peaked and will start to decline from here.

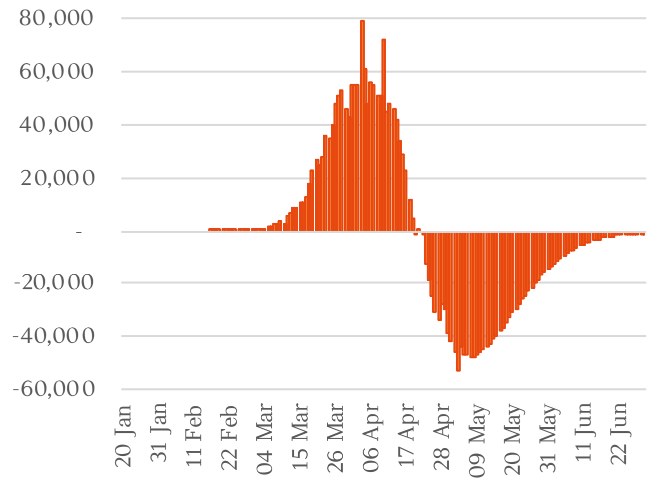
Relationship between Deaths and Infections: World ex China/Korea/Iran



Active - World ex China/Korea/Iran



New active - World ex China/Korea/Iran



Moving back to active cases, we can model mortality as a function of infections and this seems to follow a quadratic function, (it is not uncommon for the early phases of a lognormal function to resemble a quadradic function), of the form y = ax2 + bx + c, where b is the mortality rate which seems to be around 4%.

We can apply this relationship to our estimate of infections to forecast fatalities which unfortunately trends toward 250,000 across these countries.

Putting the three components together: new infections, less fatalities less people that became infected 23-35 days ago times a factor gives us total new active cases. Our analysis forecasts a peak in new infections on the 18th of April and a steep decline thereafter as infected patients recover.

Stuart Baker
Senior Analyst, Oil & Gas

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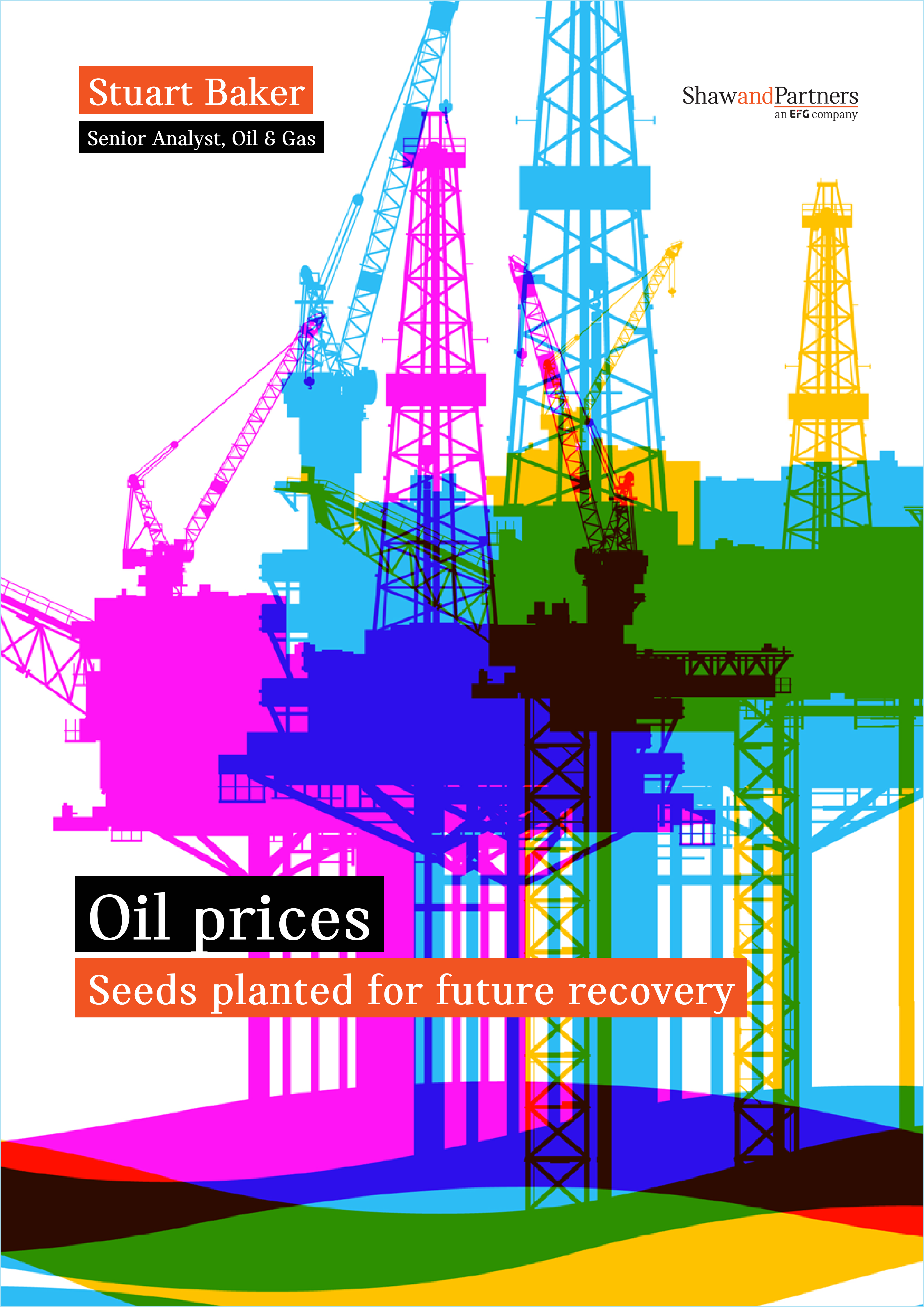


Oil prices

Seeds planted for future recovery

Oil prices have been impacted more than any other commodity. Approximately 70% of global oil production is consumed in the transportation sector. In the OECD, the Covid19 lockdowns have driven down demand for aviation fuel by 85%, gasoline by about 50% and diesel by about 30%.

In aggregate, since March global demand for oil has contracted by at least 30%, or 30MMbopd. The outcome of the recent OPEC+ meeting was a pledge to reduce production by 10MMbopd in May and June, and 8MMbopd through to the end of 2020.

These cuts are helpful but not enough to avert a severe glut. Inventories will build rapidly and once storage facilities have reached maximum capacity, producers will have no choice other than to limit supply. What is required to restore oil markets is a rapid recovery in demand back to pre-covid-19 levels. At this time, the timing and extent of a recovery is uncertain although some countries are trying to return to "normal", notably China and it would be reasonable to expect a gradual recovery in demand as the year unfolds.

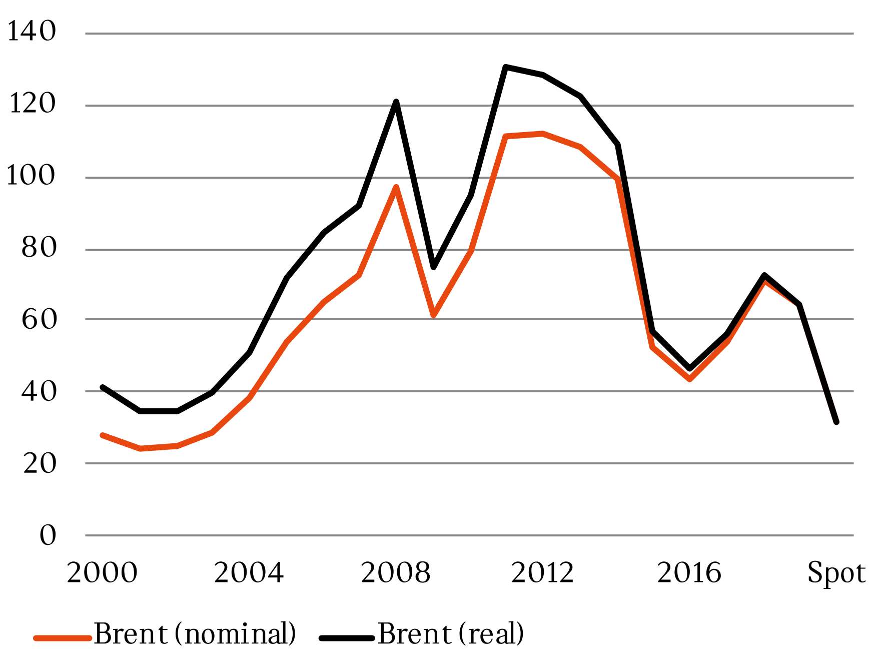
Our base case is for a gradual recovery in oil prices, in line with the current forward curve which shows Brent oil prices reaching $40/bbl by year end. In addition to OPEC cuts, a period of low oil prices will render high-cost production unviable, and constrain the capital investment required to offset natural decline, which for most fields is 10-15% p.a.

Most independent producers have already guided for substantial cuts in capex and lower production will follow in time. In the USA, where the success of the "shale" industry has stunned the E&P world, decline rates are far steeper and already, there is clear evidence of a steep drop in drilling activity, and production.

In summary, while OPEC+ actions are helpful, the sudden financial strangulation faced by the industry will sow the seeds of the next oil boom. Meanwhile, Energy equities have been sold down heavily and we recommend accumulating selected energy stocks during the current down-turn.

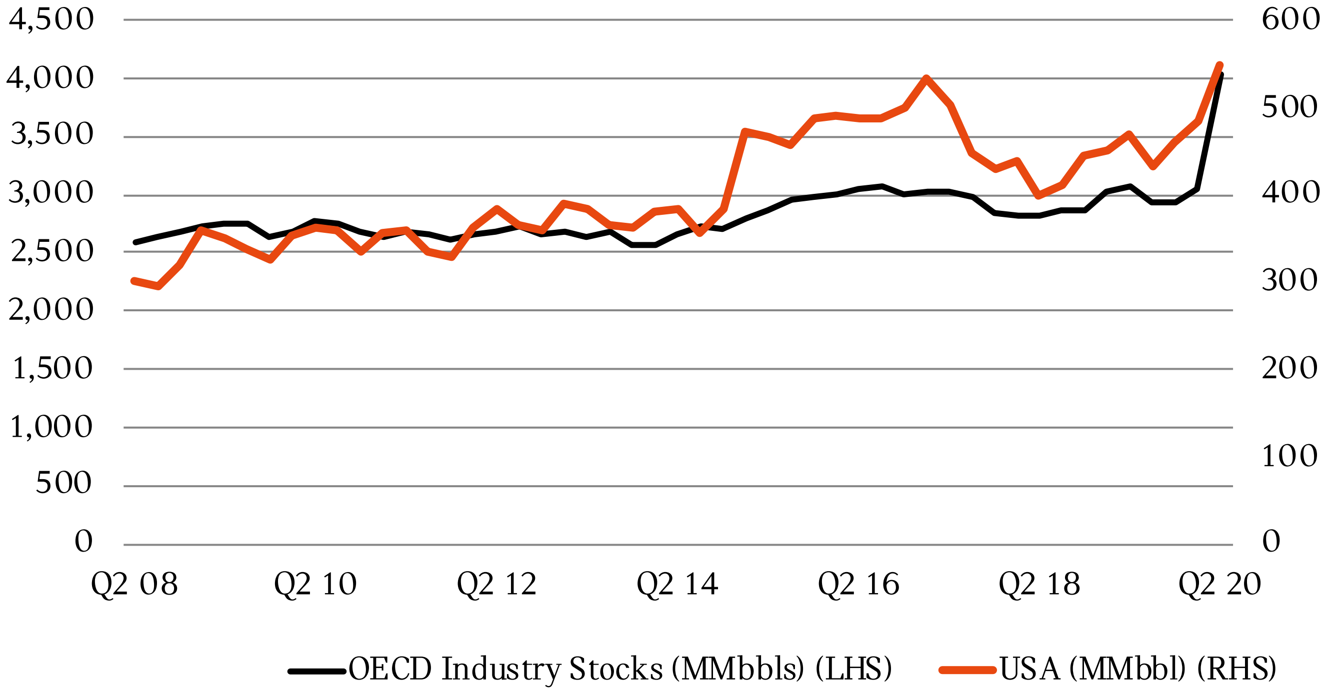
The companies we cover can survive a period of low oil prices, having adapted to the previous oil crash of 2015. In general, balance sheets are stronger, cost bases lower and capex requirements less onerous than previously.

Brent oil price (US$/bbl)



Source: Nymex

Oil inventories (mmbbl)



Source: IEA Monthly reports, EIA weekly supply

Our preferred buy recommendations are Beach Energy and Santos.

Beach has an even split of oil and domestic gas production. The latter is contracted and sold at A$ priced which are CPI-indexed, which provides revenue certainty. It has no looming large capex projects, and has net cash which could be used to acquire cheap assets during the downturn.

Santos is well diversified by product and field, and over the past 4 years has substantially reduced its cash-flow break-even to ~US$24/bbl. It has low-cost growth options and highly prospective exploration acreage offshore WA and the NT.

Woodside and Oil Search are riskier investments at this time. Both predominantly exposed to Asian LNG markets for revenue and future growth, and slow-down in that region may impact on current production and prices. Spot prices for LNG are very low and won't help either company's growth aspirations, which require LNG market opportunities in Asia.


Shaw and Partners

Beach Energy (BPT)

Rating: Buy | Risk: High | Price Target: $1.90

Well placed to weather the storm

DOWNLOAD BEACH ENERGY REPORT


Shaw and Partners

Santos (STO)

Rating: Buy | Risk: High | Price Target: $7.50

Hedging to the fore

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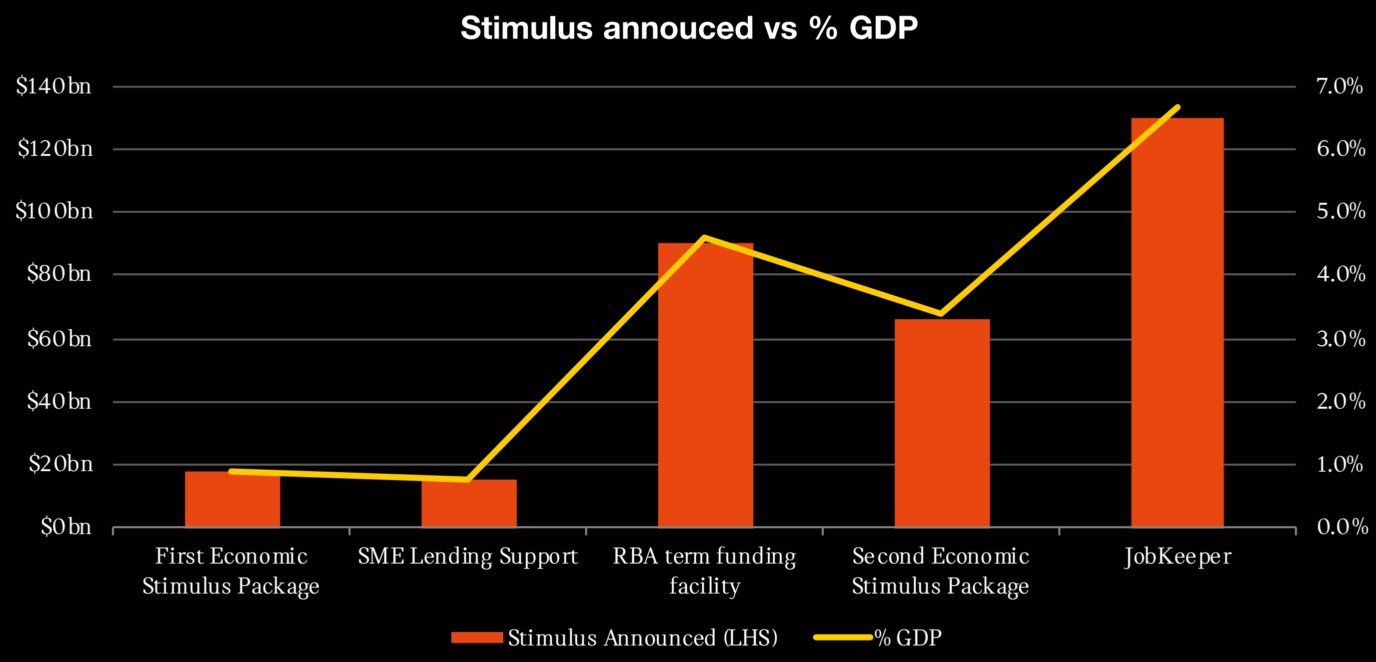
Jonathon Higgins
Analyst, Consumer Discretionary
Information Technology

JobKeeper
A potential unemployment and downturn beater



The Australian Government's JobKeeper announcement in March is one regarding the implementation of one of the most dynamic and important government fiscal support policies in regards to COVID-19 globally.

JobKeeper entails the government directly paying workplaces to then pay employees that have had turnover reduced materially (>30% for $1bn & >50% for $1bn+).

This payment is equivalent to $1,500 a fortnight per worker across permanent, casual and is across a large range of industries.

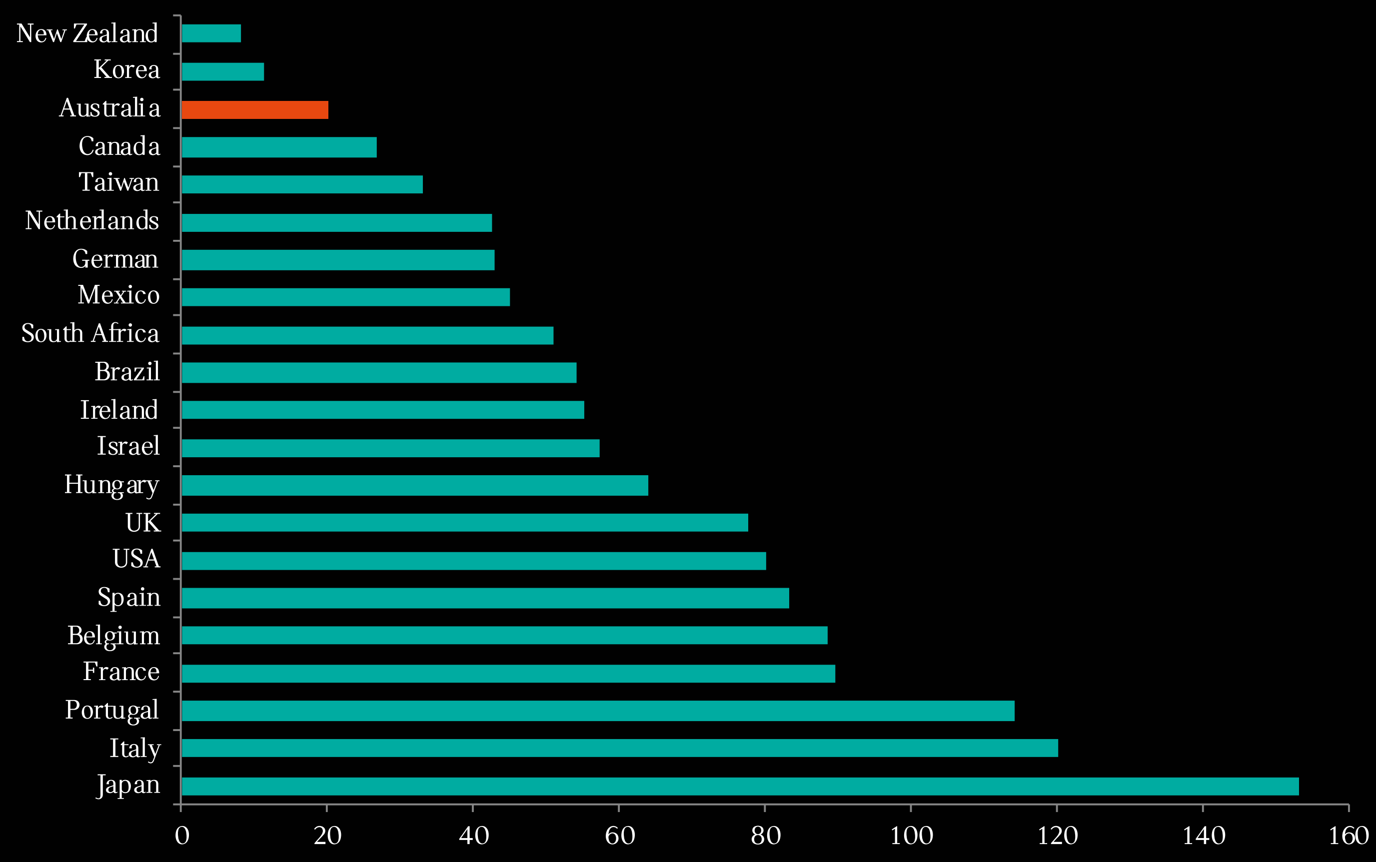
Unemployment is sticky in nature and the nature of an un-altered economic fall-out from COVID-19 is that SME's, the workhorses and majority employers of the Australian economy, would be affected the greatest from quarantines. JobKeeper in our view will increase the steepness of recovery post lifting of restrictions and is likely to result in a materially improved economic result and underwrites lower income Australians.

There has been a number of important stimulus measures announced by the Federal Government to directly combat the economic fall-out from COVID-19. These measures total over $320bn in stimulus to be deployed over the next 6 months, which accounts for ~16% of GDP.

These measures include:

1. JobKeeper payments of $1,500 a fortnight for 6 months;
2. Doubling of unemployment benefits to $1,115 per fortnight;
3. 2x $750 cash payments to 6m+ Australians;
4. Up to $100,000 cash payments to SME's;
5. $1bn+ in AOFM purchases of financial products and securitisation structures;
6. Early release of 2x $10,000 tranches in superannuation;
7. RBA interest rate cut of 50bps;
8. Quantitative easing operations within Australia by the RBA for the first time ever.

Net Debt / GDP Select Economies



The magnitude and violence of the event on economic growth is comparable to the Great Depression in its spike and the government response is co-ordinated, massive and unlikely to be seen again.

The measures announced for stimulus by the Australian government are the most far reaching in the World by magnitude, delivery and spread across the economy.

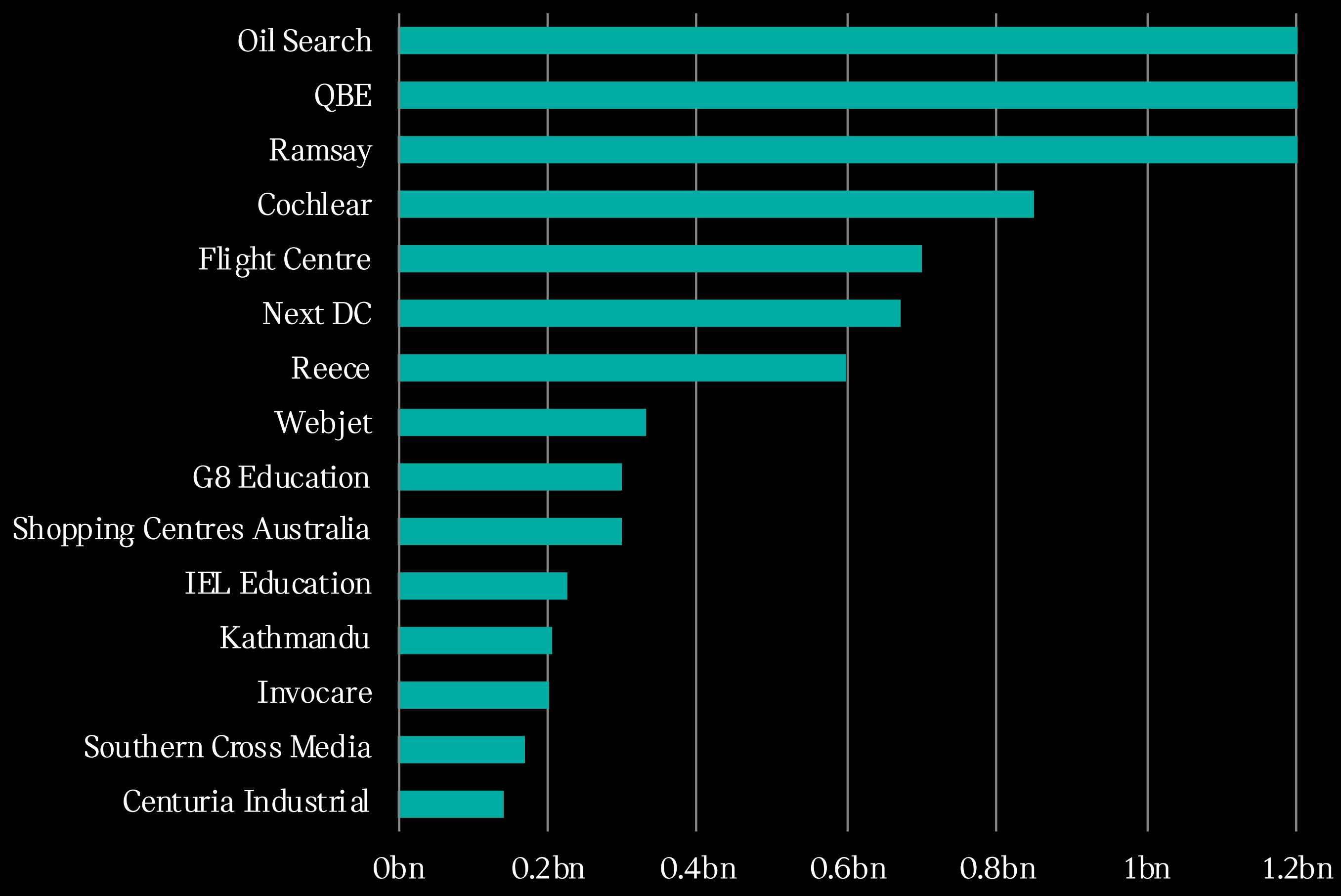
SME's and businesses are being directly supported, incomes are being paid by, subsidised or augmented by the government for what we estimate is ~50% of the workforce and the government is acting in a co-ordinated manner alongside the RBA and other nations globally. Everyone is colluding.

Whilst efforts to control the virus in Australia at this early stage appear to be bearing fruit it's important to note that in a relative sense Australia is very well placed to respond fiscally to the event. The budget was headed for a surplus prior to the event and Australia's net debt to GDP was only 20% in 2018 - One of the lowest levels globally, for the 14th largest economy. This leaves further dry powder above and beyond current measures that could be implemented depending on the shape and nature of the event and recovery. In our view Australia is at a competitive advantage versus other countries globally.

It's not just the government that is providing support to Australian businesses and consumers, with equity capital and debt markets also stepping up to the plate to finance liquidity, business support and a whole host of measures.

Since March there has been over $13bn+ in equity issuance within the Australian market. Whilst the majority of issuers haven't tripped covenants (as yet), or encountered materially difficult earnings trajectories, BS's are being shored up at a rate greater than the GFC.

Notable Equity Raise Since COVID-19 Start



The Australian government through initiatives announced is directly subsidising the most vulnerable and lowest income workers within Australia. Notable features among the Australian population include:

- Median incomes in Australia are ~$52k per annum, which post superannuation is $1,820 per fortnight;
- 40% of the workforce is under 35;
- Industries that likely hit immediate 30% turnover hurdle reductions account for 18% of total Australian employment;
- Average CC balances are ~2,200 per Australian representing minimum payment hurdles of $40 a month;
- Average weekly earnings in retail and accommodation/food services are < $42k a year; and
- Median debt to income ratios are highest in lowest income quartile households at 1.8x.

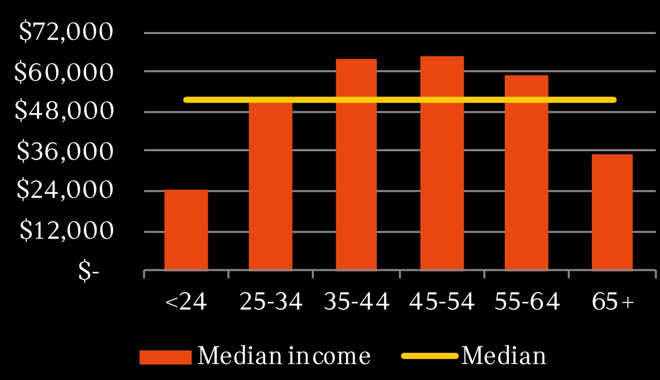
The JobKeeper and other stimulus measures are designed to protect and even underwrite the bottom end of the Australian working population. Typically, higher incomes, ages and industries have lower gearing, higher savings and are in typically less affected industries than lower income quartiles.

JobKeeper could result in one million Australians potentially receiving a pay rise

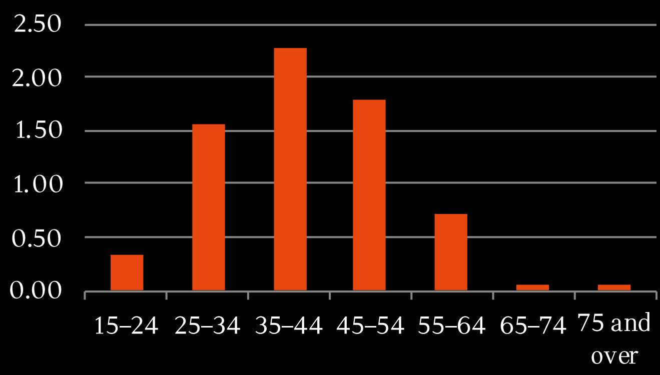
Employment by industry

Health Care & social	13.3%
Retail trade	10.0%
Construction	9.4%
Professional, Scientific & Technical	8.5%
Education & Training	7.9%
Manufacturing	7.7%
Other	7.6%
Accomodation & Food Service	7.0%
Public admin	6.4%
Transport, postal & warehousing	5.1%
Financial & Insurance	3.6%
Administrative & Support	3.1%
Wholesale trade	2.9%
Agriculture, forestry & Fishing	2.6%
Mining	1.9%
Information media & telco	1.8%
Utilities & waste services	1.2%

Income by wage bracket



Median debt to income ratio by age



The Australian Government could potentially be underwriting facets of personal finance within Australia through JobKeeper.

Direct and indirect stimulus measures are likely to underwrite the bottom end of the credit curve and potentially are likely to support alt Fi & Fin-tech companies within Australia in terms of direct support to credit affected customers and also through potentially the Australian government financing these businesses.

In our view the best leverage to this thematic and potential underwriting is through the following companies, noting that we cover only a minority of companies mentioned:

- **Afterpay Ltd (APT)**
- **Zip Money (Z1P)***
- **Openpay Group Ltd (OPY)***
- **FlexiGroup Limited (FXL)**
- **Money3 Corporation (MNY)***
- **Credit Corp Group (CCP)**
- **Cash Converters International (CCV)**
- **Resimac Group (RMC)**
- **Moneyme Ltd (MME)**
- **WISR Ltd (WZR)***

* *indicates under Shaw and Partners Research coverage*

Please speak to your Shaw adviser for further information regarding stock specific and other investment advice.

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an EFG company

Shaw Managed Accounts

Portfolio Performances – March 2020

Portfolio		3 Mth	6 Mth	1yr	2yr	Inception
Shaw Income Goal Portfolio	**Total Portfolio Return**	**-11.58%**	**-11.05%**	**-4.88%**	**1.53%**	**2.25%**
Objective: RBA Cash +3%	Portfolio Objective	0.90%	1.85%	3.99%	4.27%	4.33%
Inception: Sep-17	Excess v Objective	-12.48%	-12.90%	-8.87%	-2.74%	-2.08%
Shaw Balanced Goal Portfolio	**Total Portfolio Return**	**-15.75%**	**-15.47%**	**-9.18%**	**-0.52%**	**1.29%**
Objective: RBA Cash +4%	Portfolio Objective	1.14%	2.33%	4.97%	5.23%	5.29%
Inception: Sep-17	Excess v Objective	-16.89%	-17.80%	-14.15%	-5.75%	-4.00%
Shaw Growth Goal Portfolio	**Total Portfolio Return**	**-20.56%**	**-17.30%**	**-8.18%**	**0.24%**	**3.49%**
Objective: RBA Cash +5%	Portfolio Objective	1.38%	2.83%	6.02%	6.30%	6.36%
Inception: Sep-17	Excess v Objective	-21.94%	-20.13%	-14.20%	-6.06%	-2.87%
Debt Securities Income Portfolio	Total Portfolio Return	-2.04%	-2.49%	1.60%	3.53%	3.20%
	Inception: Sep-17					
Hybrid Income Portfolio	Total Portfolio Return	-5.45%	-6.24%	-2.04%	2.58%	4.70%
	Inception: Sep-16					
Australian Equity (Large Cap) - Income	Total Portfolio Return	-24.27%	-23.62%	-13.19%	-1.01%	-0.27%
	Inception: Sep-17					
Australian Equity (Large Cap) - Core	Total Portfolio Return	-29.74%	-30.94%	-21.85%	-5.61%	2.77%
	Inception: May-16					
Australian Equity (Large Cap) - Growth	Total Portfolio Return	-26.76%	-21.70%	-8.87%	1.72%	5.13%
	Inception: Sep-17					
Australian Equity - Small and Mid Cap	Total Portfolio Return	-31.61%	-30.38%	-19.24%	-9.37%	-4.52%
	Inception: Sep-17					
Shaw Liquid Alternatives Portfolio	Total Portfolio Return	-0.34%	-1.19%	0.73%		-0.29%
	Inception: Aug-18					
AB Concentrated Global Growth	Total Portfolio Return	-8.26%	-3.31%	9.11%		9.65%
	Inception: Jan-15					
EFG US Future Leaders Portfolio	Total Portfolio Return	-0.91%	-0.25%			-10.83%
	Inception: Jul-19					

Shaw Managed Accounts

Click on the images below to download the marketing brochure and SMA Portfolio Factsheets. Download the marketing brochure here.


Shaw Managed Accounts
ShawandPartners
GOAL BASED PORTFOLIO
Shaw Income Goal Portfolio
MODEL PORTFOLIO CODE
SP0009

Shaw Income Goal


Shaw Managed Accounts
ShawandPartners
GOAL BASED PORTFOLIO
Shaw Balanced Portfolio
MODEL PORTFOLIO CODE
SP0008

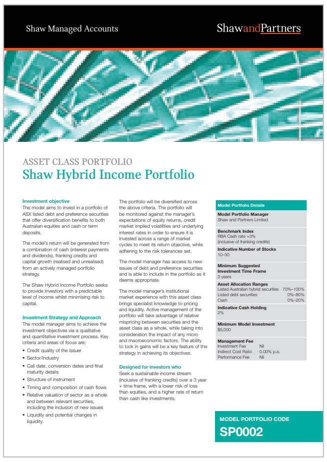
Shaw Balanced Goal


Shaw Managed Accounts
ShawandPartners
GOAL BASED PORTFOLIO
Shaw Growth Goal Portfolio
MODEL PORTFOLIO CODE
SP0010

Shaw Growth Goal


Shaw Managed Accounts
ShawandPartners
ASSET CLASS PORTFOLIO
Shaw Debt Securities Income Portfolio
MODEL PORTFOLIO CODE
SP0003

Shaw Debt Securities Income


Shaw Managed Accounts
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ASSET CLASS PORTFOLIO
Shaw Hybrid Income Portfolio
MODEL PORTFOLIO CODE
SP0002

Shaw Hybrid Income


Shaw Managed Accounts
ShawandPartners
ASSET CLASS PORTFOLIO
Shaw Australian Equity (Large Cap) Income
MODEL PORTFOLIO CODE
SP0004

Shaw Australian Equity (Large Cap) Income


Shaw Managed Accounts
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ASSET CLASS PORTFOLIO
Shaw Australian Equity (Large Cap) Core
MODEL PORTFOLIO CODE
SP0001

Shaw Australian Equity (Large Cap) Core


Shaw Managed Accounts
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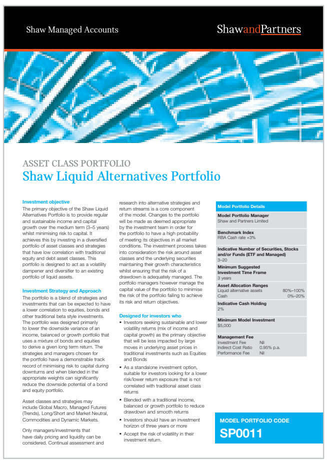
ASSET CLASS PORTFOLIO
Shaw Australian Equity (Large Cap) Growth
MODEL PORTFOLIO CODE
SP0005

Shaw Australian Equity (Large Cap) Growth


Shaw Managed Accounts
ShawandPartners
ASSET CLASS PORTFOLIO
Shaw Australian Equity (Small and Mid-Cap) Growth
MODEL PORTFOLIO CODE
SP0006

Shaw Australian Equity (Small and Mid-Cap) Growth


Shaw Managed Accounts
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ASSET CLASS PORTFOLIO
Shaw Liquid Alternatives Portfolio
MODEL PORTFOLIO CODE
SP0011

Shaw Liquid Alternatives


Shaw Managed Accounts
ShawandPartners
ASSET CLASS PORTFOLIO
AllianceBernstein Concentrated Global Growth
MODEL PORTFOLIO CODE
SP0012

AllianceBernstein Concentrated Global Growth


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ShawandPartners
ASSET CLASS PORTFOLIO
EFG US Future Leaders
MODEL PORTFOLIO CODE
SP0200

EFG US Future Leaders

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Stock recommendations

Shaw and Partners provides coverage on 100+ listed companies across a range of sectors, specialising in Australian mid-cap and emerging companies.

Commonwealth Bank of Australia (CBA) provides banking and financial services. It offers banking and financial products and services to retail, small business, corporate and institutional clients.

Macquarie Group (MQG) offers banking, financial advisory, investment and funds management services. The company offers financial advice, cash management, wealth management and private banking, life insurance, securities brokerage, corporate debt financing, real estate funds management, real estate development financing, investment funds management and foreign exchange services.

OZ Minerals (OZL) is an Australian based mining company with a focus on copper. The company owns and operates the Prominent Hill copper-gold mine and the Carrapateena copper-gold project located in South Australia and has a number of equity interests in listed resource companies. The company was founded in 1988 and is headquartered in Parkside, Australia.

Sandfire (SFR) is a dynamic mid-tier copper Australian mining and exploration company. SFR's producing asset, DeGrussa mine is based in WA and produces high quality copper-in-concentrate with significant gold credits.

Beach Energy (BPT) is an Australian listed oil and gas exploration and production company. Its core area of operation is the onshore SA and Qld Cooper Basin, offshore Victoria and offshore NZ. The dominant product is gas for the domestic and NZ markets

Santos (STO) is an Australian oil and gas exploration company. Its key operations are onshore SA Cooper Basin, PNG LNG, Gladstone LNG, Darwin LNG and various gas and oil fields offshore WA.

Audinate Group (AD8) engages in the development and commercialization of audio visual software and hardware. Its products include chips, modules and cards with embedded software; reference designs and software to enable network configuration and management under the Dante brand. The company was founded in 2006 and is headquartered in Ultimo, Australia.

Wisr (WZR) is Australia's first neo-lender with a commitment to the financial wellness of all Australians, through providing a smarter, fairer and wiser collection of financial products and services. Wisr provides a unique financial wellness eco-system underpinned by consumer finance products, the Wisr App to help Australians pay down debt, WisrCredit.com.au the country's only credit score comparison service, combined with content and other products that use technology to provide better outcomes for borrowers, investors and everyday Australians.

Money 3 (MNY) Money3 Corp. Ltd. provides financial services. It specializes in the delivery of small cash loans, secured and unsecured personal loans, cheque cashing. The company operates through following segments: Broker, Branch and Online.

Zip Co (Z1P) provides point-of-sale credit and digital payment services. The Company offers retail finance solutions to small, medium, and enterprise businesses. Zip Co serves retail, education, health, and travel industries in Australia.

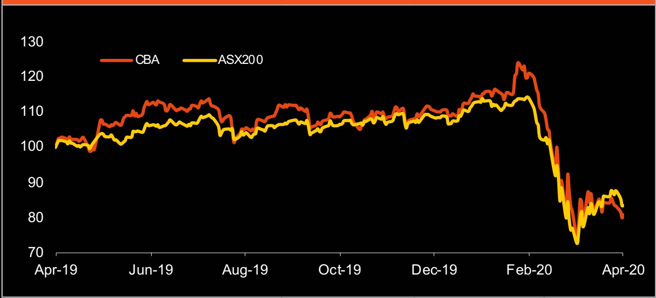
Atrum Coal (ATU) explores and develops coal properties. The company focuses on the exploration and development of metallurgical coal projects in British Columbia. The firm holds interest in Groundhog & Panorama, Elan coal, Naskeena and Bowron River projects. Atrum Coal is headquartered in Sydney, Australia.

Metro Mining (MMI) is engaged in the exploration of coal and bauxite. It holds interest in Bauxite Hills and Coal projects. The company is headquartered in Brisbane, Australia.

Commonwealth Bank (CBA)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$58.30
Target Price	$70.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	3.30%	-30.68%	-21.66%

* Relative Performance is compared to the S&P/ASX 200 Index

- Income growth – CBA achieved 3% income growth from 2H19 to 1H20 due to 1 bp NIM expansion, 1% growth in average interest earnings assets (AIEA) and 3 more days to earn interest. It's possible that NIM was 2.1% in 1Q20 and 2.12% in 2Q20. We have forecast a 1% decline in income from 1H20 to 2H20 which includes 1 bp decline in NIM and 1% growth in AIEA.
- NIM – Future positive impacts include cheaper wholesale funding (5 bps) and cheaper deposits with the greatest opportunity being in investment deposits. There were $207bn in investment deposits paying an average interest rate of 2.32% in 1H20, which is a margin of 124 bps over BBR. Should this margin decline to 90 bps, then the benefit to NIM would be 5 bps. CBA's NIM is forecast to decline by 1 bp from 1H20 to 2H20.
- Non-Interest Income – Trading income was strong at $569m in 1H20 which compares with $480m in 2H19 and $494m in 1H19 so there is the possibility it will decline from 1H20 to 2H20. Funds management income declined from $502m in 2H19 to $489m in 1H20 and insurance income was only $31m in 1H20. It was adversely affected by $83m in bushfire claims in 1H20 but it may not improve in 2H20. At least commissions and lending fees have stabilised following a period of decline.
- Asset Quality – CBA's troublesome loans were stable at $7.8b from 30/6/19 to 31/12/19 but within these, impaired loans fell from $3.6b to $3.4b over the period. The bad debt charge was $649m in 1H20 and it was 41% of new impairments in 1H20 compared to 42% in 2H19.

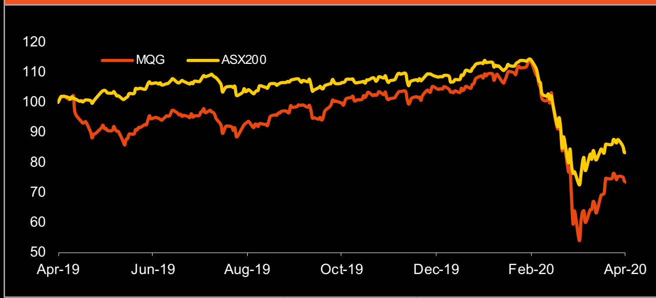
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	480.9	454.5	429.5
Dividends (AUD) cps	431.0	380.0	360.0
PE x	17.2	12.9	13.7
Yield %	5.2%	6.5%	6.1%
Franking %	100%	100%	100%

Macquarie Group (MQG)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$97.28
Target Price	$130.00
Analyst	Brett Le Mesurier

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	18.91%	-34.86%	-30.02%

* Relative Performance is compared to the S&P/ASX 200 Index

- At MQG's operational briefing held last February, it made the following comments on FY19 year to date (YTD) vs FY20 YTD: (1) Base fees and performance fees increased from FY19 to FY20; (2) Volume growth offset by margin pressure in BFS; (3) Significantly lower investment related income in MacCap from FY19 to FY20 due to lower asset realisations; and (4) There was stronger business activity in CGM.
- MQG provided the capital usage in 3Q20 which is shown in figure 1 as being $0.6b. MQG's capital usage in FY20 YTD is $2b, which compares with its forecast increase in retained earnings of $1b. It helps explain why the company raised $1.7b through an institutional share placement and SPP in August and September last year.
- In the past 15 months, MQG has invested $4.5b in its business with most of the investment being in the MAM and CGM businesses. MAM and CGM provided 39% and 40%, respectively, of the 1H20 contribution to MQG group profit and yet they only used 22% and 29%, respectively of MQG's regulatory capital. This is an example of resources being allocated to the highest returning businesses.
- Notwithstanding the quality of the decisions made by MQG management, the revenue and profit of the company remain highly dependent on the health of the financial markets, for example: (1) the average XAO declined 42% from 1H08 to 2H09 and MQG's revenue declined by 46% over the same period; and (2) the average XAO increased by 31% from 2H09 to 1H11 and MQG's revenue increased by 43% over the same period.

Forecasts

YE 31-Mar	FY19	FY20E	FY21E
Earnings cps	883.3	884.6	874.2
Dividends (AUD) cps	575.0	579.4	575.0
PE x	14.7	10.9	11.1
Yield %	4.4%	6.0%	6.0%
Franking %	45%	40%	40%

OZ Minerals (OZL)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$8.48
Target Price	$10.00
Analyst	Peter O'Connor

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	18.91%	-34.86%	-30.02%

* Relative Performance is compared to the S&P/ASX 200 Index

Delivering growth, cashflow and future options

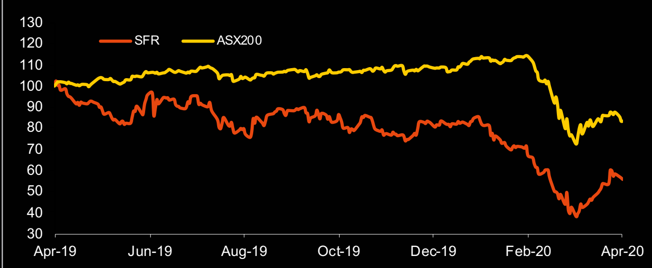
- What an incredible journey … when the new team started at OZL in early 2015 – led by CEO Andrew Cole – the market viewed OZL as a disappointing "one trick pony" with a short mine life (~2022) with just one asset, the challenging Prominent Hill. The latest position has Prominent Hill churning out extraordinary CF to >2030 (2019 EBITDA ~$700m).
- The "one trick pony" has now made way for a myriad of growth options that could be delivered across the companies "province strategy". OZL has a long-term valuation tail that the market hasn't yet fully grasped, let alone valued – top line growth could hit ~200% over the period to year 2026/27. That's a CAGR (%) of ~15% vs. RIO and BHP at ~2-3% and pretty much internally funded. So, in the near-term copper price tribulations will whip-saw the share price but long-term the company valuation will grow with future CF.
- Carrapateena project delivery. The Carrapateena (CPT) project has been delivered and commissioning is expected to be completed by the end of CY20. The process is ahead of schedule and operational performance has been in line/better than expected.
- Cash build on track. The company is projected to generate positive cashflow from the new project and return the balance sheet to net cash from 2Q20 after briefly dipping into net debt in 1Q20, the first time in over a decade.
- A myriad of catalyst in 2020. Key steps in 2020 will focus on development/optimisation options at existing producing assets – Prominent Hill and Carrpateena – with news due at the end of CY20 and 2Q20 respectively.

Forecasts			
YE 31-Dec	FY19	FY20E	FY21E
Earnings cps	50.7	62.1	96.9
Dividends (AUD) cps	23.0	23.0	18.0
PE x	20.8	13.8	8.8
Yield %	2.2%	2.7%	2.1%
Franking %	100%	100%	100%

Sandfire (SFR)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$4.31
Target Price	$6.60
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	46.02%	-28.96%	-42.43%

* Relative Performance is compared to the S&P/ASX 200 Index

Confirming mine life and extending scale/scope of growth options

- Reserve update –There seemed to be a degree of market trepidation heading into the reserve/resource update - not least because of some operational variability unearthed in SQ19- so to deliver an overall unchanged outcome (net of depletion and dilution) that will sustain current operations into DH 2022. Importantly, mined grade should be around reserve grade (4.9%) which is at the high end of recent years and finally delivering the Monty ore sweet spot (grade ~7%).
- FY20 Guidance "Withdrawn" but on track – SFR suggest "they are pretty well set and have taken a cautionary step to withdraw guidance. But are actually a bit ahead of guidance (Stocks etc)." Cost issues in 4Q – watch FX bounce, oil is lower. All things going well SFR should deliver a good number for the year and below guidance (Cost).
- Projects – Covid delays but looking interesting and adding optionality. (i) Botswana (T3) - looking more, and more, interesting. T3 FS – a detailed review of FS by MOD in March 2019. Progressing well. Very clear potential in the region. T3 is only target that has been systematically drilled so far = overall directionally positive. (ii) US - Black Butte – Approvals received on 9 April. Next step, moving ahead with feasibility study.
- Out of the naughty corner and now starting to uncompress the shortcomings of the past 6-9 months. Share price is discounting a copper price of just ~US1.1/lb (assuming DG ends in 2022 CY, Mod is worth ½ of acquisition, US at mkt value and current net debt balance).

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	66.8	43.4	73.9
Dividends (AUD) cps	23.0	8.7	14.8
PE x	10.0	9.6	5.7
Yield %	3.4%	2.1%	3.5%
Franking %	100%	100%	100%

Beach Energy (BPT)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$1.32
Target Price	$1.90
Analyst	Stuart Baker

Share Performance Chart

Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	40.72%	-49.44%	-38.51%

* Relative Performance is compared to the S&P/ASX 200 Index

- Recent guidance confirms production of oil and gas in 2020 to be broadly similar to 2019 levels, with production split 50/50 oil and domestic gas. Gas is contracted to east coast utilities at prices which are CPI-indexed thus providing a relatively high degree of revenue certainty. In 2021, we forecast 46% of sales revenue will come from fixed price domestic gas.
- Capex for 2021 revised sharply lower and covered by operating cash flows, with potential for further reductions if oil prices remain weak. There are no large projects committed so BPT can defer growth and development activities to fit revenue.
- At the end of February BPT had $151m of cash and nil debt. The absence of debt allows cashflows to grow the business rather than repay banks.
- Production costs including G&A and royalties are ~A$20/boe (US$12.5/boe) making BPT a low-cost producer. EBITDAX guidance for the YTJ2020 is guided to A$1.175b-1.25b, down 8% from previous guidance Our estimate for YTJ2021 is A$910m and reflects lower oil prices for a full 12-months. This is still a healthy figure, with all-up cash costs ~$500m enabling BPT to generate significant positive cash flows
- Reduced capex and project deferrals will attenuate 2025 growth ambitions to reach 40 MMboe of production, compared to around 28 MMboe this year, however the rising cash balance is an excellent buffer should oil prices weaken further and could be used for opportunistic asset acquisitions.
- Our SoP valuation is $1.90, mostly backed by oil and gas production, with minimal value for exploration and growth projects.

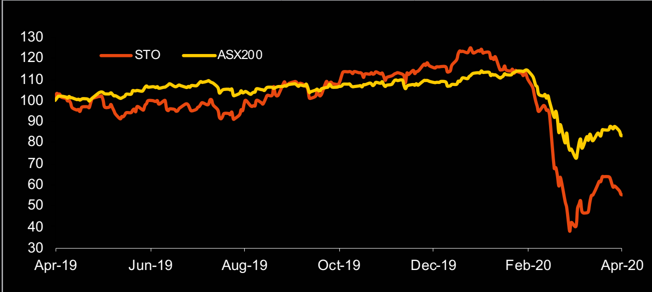
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	25.3	19.5	11.5
Dividends (AUD) cps	2.0	2.0	2.0
PE x	7.8	6.6	11.3
Yield %	1.0%	1.5%	1.5%
Franking %	100%	100%	100%

Santos (STO)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$4.31
Target Price	$7.50
Analyst	Stuart Baker

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	23.30%	-50.90%	-41.51%

* Relative Performance is compared to the S&P/ASX 200 Index

- Santos was severely impacted by the 2015 oil crash and its survival was at risk. Actions since then to insulate the company from low oil prices are now paying off. FCF break-even has been reduced to US$24/boe, gearing is low and planned capex has been reduced to levels that can be funded from operating cash flow. Acquisitions made in 2018 and 2019 have helped STO to move down the cost curve, as well as grow production.
- The asset base is reasonably well diversified by product and geography which helps to reduce specific risks. Oil sales fetch premiums to Brent, and 6MMbbls are hedged with a floor of US$54/bbl. LNG sales to Asia are contracted at oil-linked prices and are not exposed to weak spot markets. Domestic gas sales are a mix of CPI and oil-linked, and approximately 35% of 2020 sales volume is CPI-indexed gas.
- At the end of February, net debt was US$3.1B, which is conservative assuming our forecasts of EBITDAX over the next 2 years averages US$2.1b p.a. Apart from PNG LNG project debt servicing of ~US$220m p.a. there are no immediate maturities. Cash on hand was US$1.2b.
- Developments such as Darwin LNG and PNG LNG will lose momentum but others such as the Dorado oil development are moving along and exploration acreage acquired in recent years offshore WA looks highly prospective for large discoveries.
- Our latest SoP valuation is $7.50, of which around $7 is the value of “core” production and the rest growth projects.

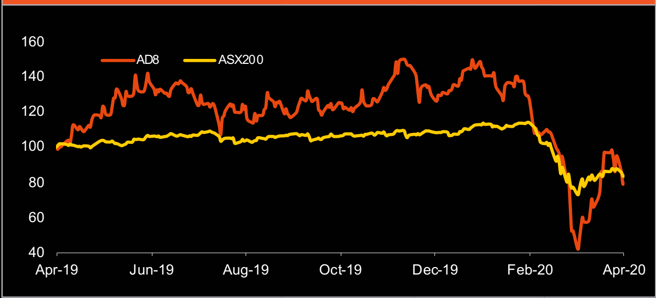
Forecasts

YE 31-Dec	FY19	FY20E	FY21E
Earnings cps	34.5	19.3	14.0
Dividends (AUD) cps	15.8	24.0	230.4
PE x	16.7	13.9	19.1
Yield %	1.9%	5.8%	5.9%
Franking %	100%	100%	100%

Audinate (AD8)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$4.88
Target Price	$8.00
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	61.84%	-45.80%	-23.79%

* Relative Performance is compared to the S&P/ASX 200 Index

Cash is (Indeed) King!

- AD8 has withdrawn guidance of 2H20 growth to be greater than 1H20 (+14% in AUD, +9% in USD) – this was not unexpected given COVID 19 makes the current situation uncertain and beyond control of any company given the slowdown in economic activity.
- Major positive was that seasonally weaker 3Q20 revenues were a strong US$5.3m (~A$8.8m), +13% on pcp's US$4.7m with similar GMs to 1H20 (~77%) – this is an excellent result.
- Based on 1H20 sales of A$16.1m, plus 3Q20's A$8.8m, sales from 9 months YTD are ~A$25m with a seasonally stronger 4Q20 to come – the question is what will the impact of COVID-19 be in 4Q20?
- One of the great attractions of AD8 is the various levers it has to 'flex', notably employees, marketing, travel, admin, corporate, discretionary and other costs – the most obvious being headcount (AD8 employs ~114 FTE's).
- Strong balance sheet with $31m in cash, no debt and 60% of orders prepaid with very low default and cancellation rates – our sensitivity analysis shows that even if sales were to fall by >40%, or AD8's operations were shut down for 3 months, the company still delivers positive monthly cash burn.
- Opportunity beckons at ~$4.70". Closer to today's and last Friday's closing price. Notwithstanding macro factors outside of AD8's control (China/Asia slowdown, US tariff war, COVID-19), AD8 is arguably in the strongest and best shape of its history right now (no debt, earnings trajectory now being fulfilled, cashflows robust, multiple products and revenue streams out in the market, growing TAM >$1b, etc.) – and this is when investors should be buying it. Let's also not forget AD8 has had a great track record in surpassing expectations.

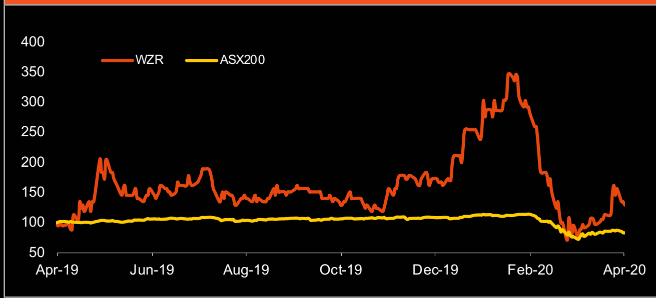
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	1.0	0.6	2.3
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	nm
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Wisr (WZR)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$0.12
Target Price	$0.35
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	46.34%	-54.72%	33.33%

* Relative Performance is compared to the S&P/ASX 200 Index

3Q20 Acceleration Continues As Ecosystem Further Strengthens

- 3Q20 delivered (another) record $39m increase in cumulative loan originations to $203m and in line with previous guidance for 15-25% q-on-q growth (+23%) - to put this in perspective, this was achieved in accelerated fashion: i.e., initial $50m in loan originations took 45 months to originate, the second $50m taking >8 months, the third tranche 6 months and the most recent $50m+ written in <4 months).
- Ramp up in originations growth is significant given it supports the scaling of WZR's personal loan originations, NAB facility improves margins (NIM >3x) and improving overall loan unit economics – with strong credit quality of 90+ day arrears at 31-Mar-2020 of 1.7% across its entire loan book.
- Very strong financial capacity to support its strong growth and scale across its core lending business and its position as a leader in the disruptive, neo-lending space – that is, a big 4 funding vehicle (NAB), cash of $36m post the cap raise to drive the necessary scale and evolution into secured products (car vehicles), partnerships (Smartgroup/HCF) and entry into the B2B2C channels.
- Prudent risk management and lending approach implemented for future given COVID-19 threat (no tangible impact so far) – reducing exposure to those employed in retail, travel, education, tourism, hospitality sectors (~13% of balance sheet / NAB facility).
- High quality operational metrics – customers are only the top shelf prime credit/borrowers with average credit score of >705 vs. Big 4 banks' ~640 vs. industry average ~600.

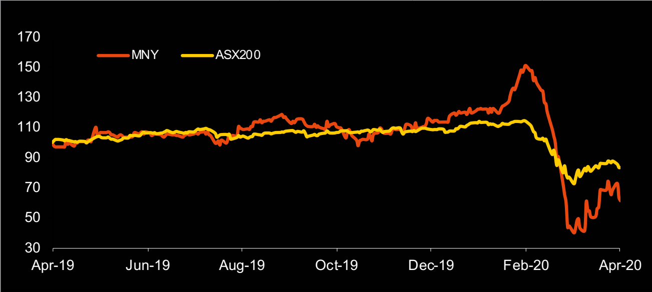
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	-1.3	-1.3	-0.9
Sales ($m)	3.3	7.4	22.4
PE x	-11.2	-8.9	-13.1
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Money 3 (MNY)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$1.32
Target Price	$2.86
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	45.35%	-48.98%	-35.90%

* Relative Performance is compared to the S&P/ASX 200 Index

- MNY is one of the largest alternative finance providers within Australia, predominantly providing secured automotive vehicle financing within Australia and New Zealand. MNY has sold its exposure to SACC and higher risk regulatory and credit receivables.
- Whilst we expect origination volumes and loan book growth to reduce as the group takes a prudent approach to credit quality and collections, we expect MNY to be able to trade sustainably through the COVID-19 event and overflow.
- MNY is well capitalised with D/E of only 50% and the group predominantly funds the book through equity, rather than debt. The current debt structure in place has no near term maturity and MNY has current significant liquidity and is paying an interim dividend. MNY is currently at a discount of 50% to our valuation. We suspect that the crisis could create opportunity for MNY through targeted accretive acquisitions, movement up the credit curve, or the removal of competition within core markets.
- The government's recent announcement of JobKeeper in our view is likely to underwrite the bottom end of the potential BDD credit curve for alt-fi players including MNY. A number of MNY customers have potentially even received pay rises/ injection of capital through significant stimulus measures that account for over 16% of GDP, 6m Australians and 16%+ of the workforce.

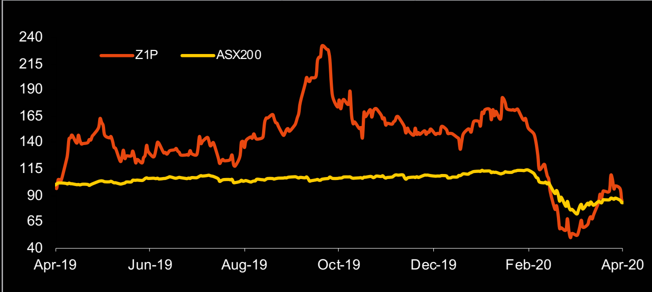
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	19.9	15.6	19.1
Dividends (AUD) cps	10.0	10.0	11.5
PE x	10.7	7.7	6.3
Yield %	4.7%	8.3%	9.5%
Franking %	0.0%	0.0%	0.0%

Zip Co (Z1P)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$2.02
Target Price	$4.29
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	49.42%	-52.94%	-22.89%

* Relative Performance is compared to the S&P/ASX 200 Index

- Z1P is one of the fastest growing fin-tech, instalment and finance businesses within APAC. The group has consistently grown revenues by ~100% a year and is one of the leading BNPL companies within Australia. The stock has seen a material sell-off through COVID-19 as beta leverages to the downside, investors price in credit, funding and growth risk.
- In our view Zip is well placed to navigate the current crisis and management has built a sustainable business with multiple layers of redundancy and product flexibility. Our view is supported by: 1) 4x products with payment flexibility around amortisation; 2) Credit process and dynamic approval process; 3) Multiple forms and structure of various financing mechanisms with Westpac (WBC) the second largest shareholder; and 4) Low dollar balances, fast amortisation and diversified online categories skew at over 70% of volumes.
- Zip has over 2m customers within AU/NZ with 10% of Australians now having an account. The structural change and shift towards fin-tech/instalment players away from mainstream banks is unlikely to be affected by COVID-19 and if anything is likely to accelerate the shift.
- We expect Zip to continue to outperform and the government's recent announcement of JobKeeper in our view is likely to underwrite the bottom end of the potential BDD credit curve for alt-fi players including Zip. Zip is currently trading at a ~50% discount to prior crisis levels and as the economy opens up expect Zip to re-rate substantially.

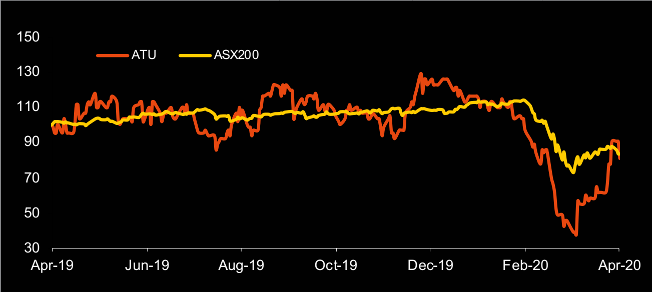
Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	-1.8	-6.7	-8.4
Sales ($m)	84.2	162.3	251.6
PE x	nm	-29.1	-23.4
Yield %	0.0%	0.0%	0.0%
Franking %	0.0%	0.0%	0.0%

Atrum Coal (ATU)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$0.32
Target Price	$0.80
Analyst	Andrew Hines

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	104.17%	nm	-16.95%

* Relative Performance is compared to the S&P/ASX 200 Index

Exceptional resource with re-rating catalysts ahead

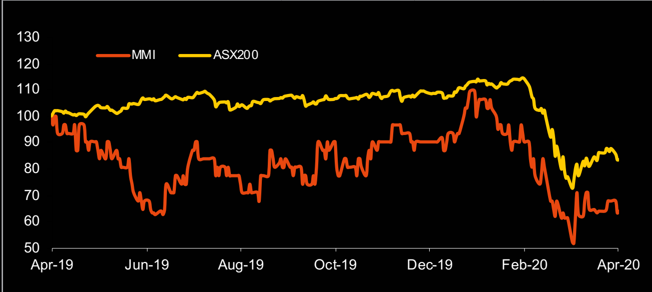
- We recently initiated coverage on Atrum Coal (ATU) with a BUY recommendation and A$0.80ps price target. Atrum Coal is developing the Elan Coal project, a high quality hard coking coal project in Alberta, Canada. We anticipate first production in late 2023. The Elan project setting is directly analogous to Teck's Elk Valley operations, 30km to the west, where Teck produces 26Mtpa of high quality coking coal from four mines and generated C$3.8b EBITDA in 2018.
- The southern part of the project is adjacent to Riversdale Resources' Grassy Mountain project which was acquired for A$744m by Hancock Prospecting in May 2019. Atrum Coal is about two years behind Grassy Mountain, but is following the same development pathway and is potentially a larger project. The Elan Project appears capable of supporting multiple operating mines over time. Atrum recently released a scoping study which outlined two potential development scenarios at 4.5Mtpa and 6.Mtpa saleable coal production. The NPV is US$790m and US$860m (A$1,275m and A$1,390m) in each scenario respectively. This equates to A$2.70-A$2.90ps compared to the current share price of just $0.24.
- Our 12 month price target of A$0.80ps is based on the price that was paid for Grassy Mountain by Hancock Prospecting in May 2019. Our DCF valuation is significantly higher. We expect the Atrum Coal share price to steadily increase as it follows the same development path as the adjacent Grassy Mountain project.

Forecasts			
YE 31-Dec	FY19	FY20E	FY21E
Earnings cps	-5.5	-2.1	-2.0
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-7.1	-15.0	-16.4
Yield %	0.0%	0.0%	0.0%
Franking %	0%	0%	0%

Metro Mining (MMI)

Recommendation	Buy
Risk	High
Share Price (as at 24 Apr 2020)	$0.10
Target Price	$0.26
Analyst	Andrew Hines

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	22.50%	-40.61%	-36.77%

* Relative Performance is compared to the S&P/ASX 200 Index

Expansion to 6Mtpa in 2020 will boost earnings

- We recently initiated coverage on Metro Mining (MMI) with a Buy recommendation and A$0.24ps price target. Metro Mining is a bauxite producer from its Bauxite Hills operation in far north Queensland. The company successfully commenced operations in 2018, and produced 3.5Mt in 2019. Bauxite is predominantly used as the feedstock for alumina production, which itself is predominantly used to produce aluminium.
- Metro Mining has recently released a Definitive Feasibility Study to expand production from 3.5Mtpa to 6.0Mtpa in 2021. This will result in a significant step-up in free cash flow generation due to higher production and the associated economies of scale reduction in unit costs.
- Metro Mining is trading at a 50% discount to our discounted cash flow valuation, and once the expansion is complete the share price is likely to trade towards our valuation. We also expect the company to begin paying dividends in 2021.
- The bauxite market is well supported by strong demand growth from China as Chinese alumina refineries increasingly rely on imported bauxite as domestic production declines. Chinese production of bauxite peaked in 2018. Metro Mining's Bauxite Hills project is well placed to supply the growing Chinese market due to the proximity to markets.

Forecasts			
YE 31-Dec	FY19	FY20E	FY21E
Earnings cps	0.3	1.0	2.4
Dividends (AUD) cps	0.0	0.0	2.0
PE x	51.6	9.9	4.2
Yield %	0.0%	0.0%	20.2%
Franking %	0%	0%	0%

RECOMMENDATION DEFINITIONS

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Buy	Expected to outperform the overall market
Hold	Expected to perform in line with the overall market
Sell	Expected to underperform the overall market
Not Rated	Shaw has issued a factual note on the company but does not have a recommendation

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Medium	Risk broadly in line with the overall market
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