



# ShawandPartners

an **EFG** company

## The Research Monitor

September Quarter 2020

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# Q2 2020 Performance

The Australian Share Market, as measured by the S&P/ASX 300 Index, rebounded strongly in the June 2020 quarter following the steep declines in the March quarter which had been one of the worst on record, with the price index down a whopping 24.3%, 21.4% of which happened in March also. April started off the quarter with a solid bounce, retracing 9.0% followed by 4.5% gains in May and 2.3% gains in June.

**Dividends were more muted as many companies suspended or cancelled dividend payments and we saw the trailing yield on the share market fall from 4.15% at the end of March to 3.58% at the end of June.**

Bond yields actually rose over the quarter despite Reserve Bank buying as the market stepped back from its darkest fears of recession and much economic news being better than feared.

The Australian 10-year bond ended the quarter at 0.83%, up from 0.73% at the end of March and having been as high as 1.05% at one stage in June – this compares to a low of 0.60% in the darkest days of March.

Among Australian equity sectors, previous market darling the Pharmaceuticals, Biotech and Life Sciences sector posted negative returns during the quarter, falling 2.4% primarily driven by a 3.3% fall in CSL. Leading the charge to the upside were the Software and Services and Media and Entertainment sectors as demand for both technology and media spiked as many people worked from home and increased social distancing.

**Afterpay Touch (APT) rose a staggering 224.4% during the quarter ahead of its inclusion in the ASX100 index. The largest Media and Entertainment company is RealEstate.com (REA) which rose 40% as investors looked beyond the pandemic to a more dominant market position for the company.**

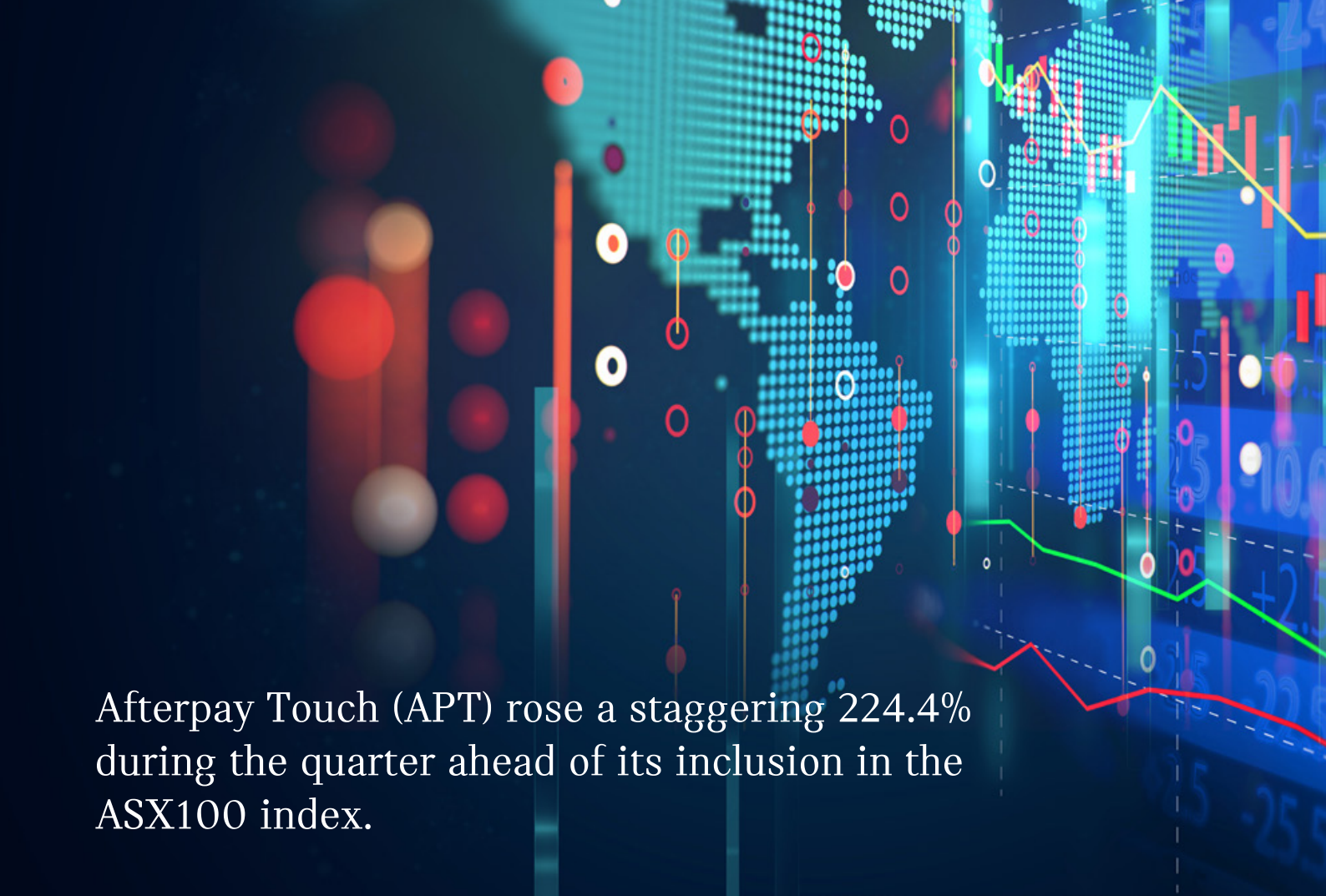
Another beneficiary of the coronavirus was the retailing sector due to strong demand for outdoor goods, furniture and electronic equipment.

**The largest stock in the Retail sector is Wesfarmers (WES) which rose 30.8% thanks primarily to strong results from Bunnings and steps taken to finally address problem child Target.** Food and Staples had a more subdued quarter after performing strongly in March rising only 7.3% led by Woolworths (WOW) up 6.2%. Consumer services – dominated by gaming and

travel stocks – also caught a bid during the quarter rising 24.8% led by largest company Aristocrat Leisure (ALL) up 19.4%.

**The largest component of the S&P/ASX 300 Index is now the Materials sector (19.6% index weight),** having for many years been the Banks Sector (18.5% index weight), which rose 26.5% in price terms and 26.7% including dividends, reversing the poor returns in the March quarter and extending the period over which miners have outperformed the banking stocks.

	Sector	Performance	Market Cap
↗	Software & Services	44.7%	59,797
↗	Media & Entertainment	42.2%	22,623
↗	Retailing	35.0%	69,036
↗	Diversified Financials	30.0%	88,341
↗	Energy	28.4%	66,515
↗	Materials	26.7%	325,727
↗	Consumer Services	24.8%	44,090
↗	Real Estate	20.2%	103,847
↗	Transportation	16.3%	78,927
↗	Capital Goods	16.0%	12,152
↗	Health Care Equipment & Services	15.7%	66,562
↗	Commercial & Professional Services	13.2%	31,470
↗	Banks	11.0%	307,873
↗	Utilities	7.3%	31,433
↗	Food & Staples Retailing	7.3%	70,482
↗	Food Beverage & Tobacco	6.4%	35,320
↗	Telecommunication Services	4.7%	45,459
↗	Insurance	2.7%	52,316
↘	Pharmaceuticals, Biotech & Life Sciences	-2.4%	136,576



Afterpay Touch (APT) rose a staggering 224.4% during the quarter ahead of its inclusion in the ASX100 index.

**Heavyweight BHP posted a solid 23.6% return, but the real stars in the Materials sectors were the small and medium Gold stocks with names such as Bellevue Gold (BGL) up 165%, West African Resources (WAF) up 119% and Ramelius Resources (RMS) up 108%.**

Building Material companies Boral (BLD) and AdBri (ABC) also bounced hard, up 85% and 53.6% respectively. Oil prices continued to recover over the quarter, with the price of West Texas Intermediate Crude up 97.4% from \$US20.13 to \$US39.74 per barrel.

Many experts think that a price below \$50 or even \$70 is unsustainable due to the capital requirement in finding and producing new reserves. Santos (STO) was the best energy stock in the quarter, up 55% which helped to drive the index higher, by 28.2%

**Real Estate stocks were really the only income payers in the period, with the accumulation index up 20.2% versus 18.6% for the price index.** Goodman Group (GMG) is the largest company in the Real Estate index and its shares rose 22.7% in the quarter.

Global equity markets performed somewhat in line with that of Australian markets in the March quarter, with the MSCI World Index up 17.7% in local currency terms but dragged lower by a 12.5% appreciation in the Australian dollar versus the US dollar to produce only modest gains for unhedged investors.

World share markets also moved in “higher, then slower” pattern in the quarter as market bounced hard in April before posting more modest gains later in the quarter.

**Bond markets stalled on the back of higher long-term interest rates with the Bloomberg AusBond Composite (0+Y) index up 0.4% and Bank Bills returning only 0.1%.** The spread between 90-day bank bills and cash remained at negative 15 points at the end of June – a strong sign of easing credit conditions and expectations that the RBA will continue to keep rates at very low levels for quite some time into the future.

Market measures of risk or volatility retreated from extreme levels reached in March but still remain elevated both on a spot and futures basis suggesting investors have become less comfortable with the likely path of COVID-19, politics, interest rates, growth and trade.



**Brett Le Mesurier**

Senior Analyst, Banking and Insurance

ShawandPartners  
an EFG company

The recovery of  
bank share prices

The relaxation of lock down restrictions is an important first step in the recovery of bank share prices but the more significant issue is how quickly the economy recovers, with the emphasis being on tourism, accommodation, retail, property, small business and consumers.

**Major bank share prices include annual bad debt charges of \$3bn p.a. in perpetuity, based on prices at 25 June 2020. That could well be an accurate assessment of this year and next but bad debt charges should decline in FY22.**

The indicators of change are those already identified by the banks, which include GDP, unemployment and real estate prices.

Currently, the major banks have many similarities in that they all have escalating bad debts for FY20 and probably FY21, low income growth, rising cost to income ratios and stretched capital positions which are restricting dividends.

#### REVENUE

ANZ's revenue from continuing operations, excluding notable items, is forecast to be unchanged from FY19 to FY20 and to decline by 1% from FY20 to FY21. This is due to no change in net interest income and falling non-interest income. The decline in non-interest income is largely due to a reduction in banking fees.

CBA's revenue on this basis is forecast to return to its FY19 level in FY21. Net interest income is forecast to increase by 3%p.a. from FY19 to FY21 as a result a loan growth and little change in NIM. This offsets the forecast 4% p.a. decline in non-interest income. In contrast, ANZ's NIM is forecast to fall by 9 bp from FY19 to FY20 and another 5 bp the following year.

NAB's revenue on this basis is forecast to be unchanged from FY19 to FY20, followed by a 2% increase the following year. NAB had a particularly poor treasury & markets performance in 1H20 which is forecast not to be repeated.

WBC's revenue is forecast to decline by 6% from FY18 to FY20 because of a 29% decline in non-interest income, being \$1.4B. Wealth and insurance has been a disaster with income falling from \$2B in FY18 to \$1.6B in FY19 and \$465M in 1H20. Net interest income is forecast to increase by 1% from FY18 to FY20 due to little change in NIM and little loan growth.

#### EXPENSES

Only one bank is forecast to have a cost to income ratio no higher in FY20 than it was in FY10 and that bank is CBA.


The worst performance comfortably belongs to WBC over the past decade. Its cost to income ratio was 41% in FY10 and is forecast to be 47% in FY21, assuming no further fines, penalties or customer remediation expenses. This could be wishful thinking.

Since FY10, WBC's revenue has increased by an average 2.4% p.a. while its expenses increased by an average 3.6% p.a., excluding notable items. The problem has been with its non-interest income which has fallen by an average 2.7% p.a. and all that decline has occurred over the past 2 years. Its net interest income has grown by an average 3.9% p.a. over the past decade.

**Since FY10, Westpac's revenue has increased by an average 2.4% p.a. while its expenses increased by an average 3.6% p.a.**



## The recovery of bank share prices



All banks face pressure on dividends with ANZ and WBC not expected to pay an interim dividend in FY20.

### CAPITAL

ANZ is in the weakest capital position due to the recent high growth in institutional loans and the retention of all profits from its New Zealand business in New Zealand. However, the successful completion of the sale of its New Zealand subsidiary, UDC, would elevate its common equity tier 1 (CET1) ratio to 10.8%. This is the same as WBC's CET1 ratio which would rank ANZ and WBC as equal lowest.

All banks face pressure on dividends with ANZ and WBC not expected to pay an interim dividend in FY20. The final FY20 dividends are forecast to 30 cps, 100 cps, 30 cps and 25 cps for ANZ, CBA, NAB and WBC, respectively.

### ASSET QUALITY

ANZ has the greatest credit exposure to retail and wholesale trade, accommodation and hospitality. It also has the greatest exposure to unsecured consumer lending. Its higher credit risk is demonstrated in its higher Australian loan margins which are a source of pride in stable times and serve as a warning in times such as these.

NAB has the lowest bad debt provisions, but it's comparable to its peers when viewed in the context of its credit RWA and impaired loan balances. NAB is likely to have the lowest bad debt charges during the COVID-19 crisis which is partly due to it having the lowest weighting in unsecured personal lending. NAB has had the lowest loss rates for the last 4 years amongst the major banks.

### RANKING

WBC has distinguished itself by reporting the greatest income decline over the past two years for continuing operations and excluding notable items. This drag is largely caused by its insurance and funds management businesses. It has been too slow to identify the problems and too slow to act. There is no glory in its banking business either.

**The pick of the sector is CBA and NAB is not the mistake-ridden enterprise that it had been for much of the past 20 years.**

**The ranking from highest to lowest is CBA, NAB, WBC and ANZ.**

Cameron Duncan

Co-Head, Income Strategies

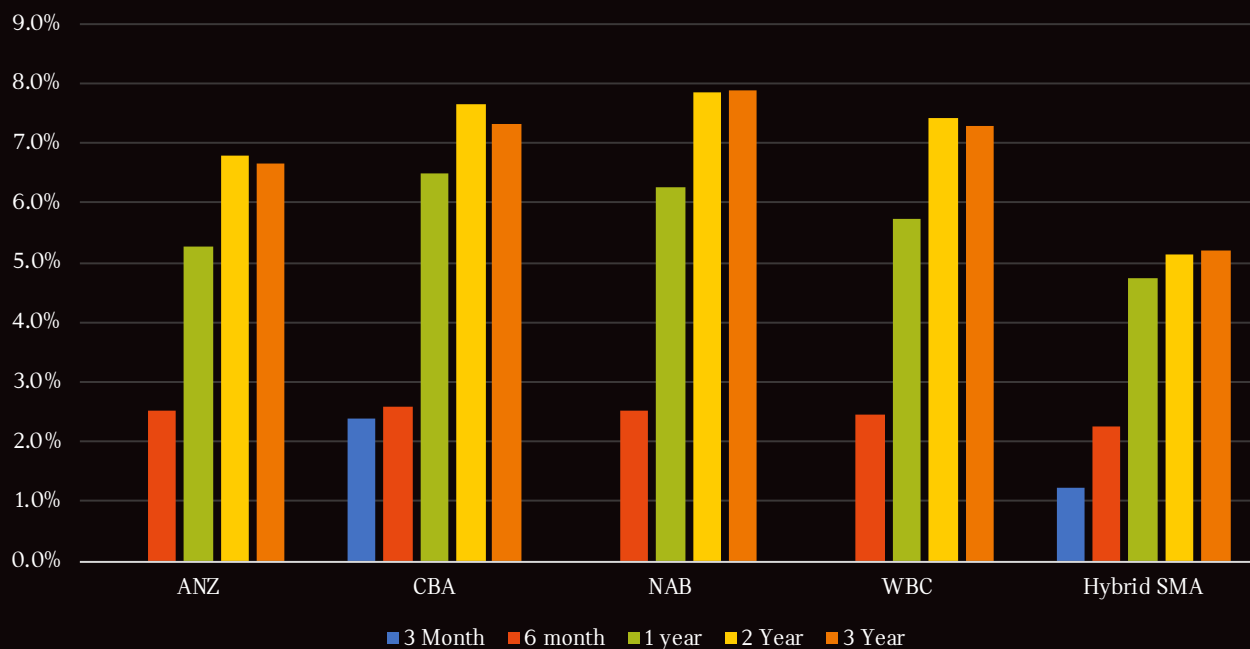


Bank dividends

Ordinary shares versus Hybrids

Income investors have widely utilised Australian Bank Ordinary Shares and Bank Hybrid Securities as a means of generating income. Ordinary shares have historically generated higher franked income and total returns as compared to Hybrids, albeit with higher risk.

Dividend Return (Gross) to May 2020



**This yield relationship has reversed recently with the Australian Prudential Regulatory Authority prompting a move by a number of the major banks to defer their interim dividends. Traditional Equity Investors are turning to Hybrid Securities for a solution to Franked Income.**

Recently, ANZ and Westpac deferred decisions on the amount and timing of any interim dividend payment. Furthermore, NAB announced an interim dividend at the same time as announcing an equity capital raising which more than paid for the dividend. CBA is in the strongest capital position and paid its interim dividend.

Banks are no longer the reliable source of dividends on ordinary shares that have been important to retail investors.

If the receipt of an income stream is an investor's objective then a security which has more debt characteristics can be considered.

Hybrids have some debt as well as equity characteristics, which means that they:

- 1 Have a higher probability of a dividend being paid than ordinary shares because they rank ahead of ordinary shares and their dividends must be paid in full if any amount of an ordinary dividend is paid;
- 2 Are likely to have less price appreciation than ordinary shares when the company's performance is improving; and
- 3 May be repaid (with APRA's consent) even though they have no maturity date, but rather an Optional Call Date.

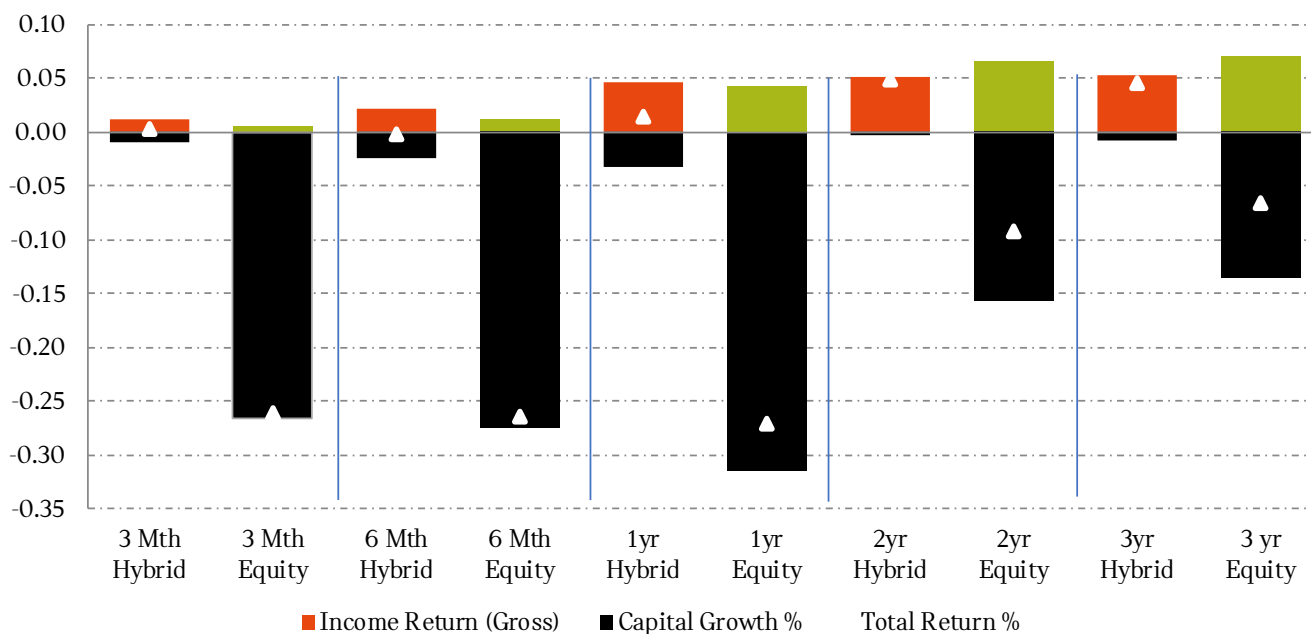
CET1 benchmark for all major Australian banks	% RWA
Minimum CET1	4.50%
Capital Conservation Buffer	3.50%
CET1 Prudential Capital Requirement (PCR)	8.00%
Management Buffer	2.50%
<b>Unquestionably strong benchmark</b>	<b>10.50%</b>



## AT1 securities issued by the major banks

	ANZ	CBA	NAB	WBC
AT1 securities outstanding at last balance date (\$B)	\$8.1bn	\$10.8bn	\$6.8bn	\$9.5bn
AT1 securities (% RWA)	1.8%	2.4%	1.6%	2.1%
Annual AT1 distributions (\$M)	\$202m	\$312m	\$204m	\$211m
FY20F profit (\$B)	\$3.4bn	\$10.5bn	\$3.7bn	\$3.8bn
Estimated FY20 AT1 distributions (% FY20F profit)	6%	3%	6%	6%

## Shaw Hybrid Income Portfolio & Major Bank Equity - Income versus Growth



The reasons that distributions on AT1 securities could continue to be paid over the next few years include:

- Hybrid instruments are sold to debt style investors and a missed dividend payment or the delivery of ordinary shares could impair the issuer's ability to issue further hybrids in the near term
- The major Australian banks have CET1 ratios above the unquestionably strong benchmark and some have indicated that they would raise equity if the CET1 ratio fell much below 10% of RWA
- There is precedent for Australian financial companies to continue to pay dividends on hybrids even when there is no dividend on ordinary shares
- Hybrid dividends are small compared to ordinary dividends.

**Given uncertainty around the quantum of Ordinary Bank dividends as well as the outlook for elevated volatility in bank share prices over the medium term as the COVID 19 crisis plays out, income seeking investors can consider Hybrid Securities as a more reliable source of franked income.**

Investors have added comfort that while Hybrid Dividends are also discretionary, they do rank ahead of Ordinary Bank Dividends and contain an Ordinary Share Dividend Stopper if not paid. The major banks remain well capitalised with CET1 ratios in excess of 10.50% to comply with the regulators stated objective that they be classified as "unquestionably strong".

Finally, as discussed, the capital impost on banks paying hybrid dividends is relatively small compared to Ordinary Dividends given the smaller amount of AT1 hybrids on issue relative to Ordinary Bank Shares on issue.



Martin Crabb

Chief Investment Officer

# Economic outlook as we emerge from COVID-19

# Australia has navigated the coronavirus better than many countries (so far) due to a combination of robust social distancing, weather and island quarantine.

**The impact on the economy both going in to and coming out of this crisis is fraught with uncertainty, so any forecasts must necessarily carry a health warning about potential lack of accuracy. Having said this, it is worthwhile considering a general framework for considering the potential economic landscape post the virus.**

When considering the outlook for economic growth, I am reminded of the simple model of the economy that I studied back at University in the 1980s:  $GDP = C + G + I + (X - M)$  where C was consumption, I was investment, G was government spending and (X-M) was the balance of trade, or exports minus imports. This simple model provides a useful framework to think about economic forecasting and what parts of the stock market are impacted. First, let us consider the Australian economy.

The latest official GDP numbers for Australia are as at March 2020. The total GDP of the Australian economy was \$1.91 trillion dollars, and this is comprised as follows:

- **Consumption \$1.07 trillion, or 56.0% of GDP**
- **Investment \$341.5 billion, or 17.9% of GDP**
- **Government spending \$474.5 billion, or 24.8% of GDP**
- **Exports \$423.5 billion or 22.1% of GDP**
- **Imports -\$386.6 billion, or -20.2% of GDP**
- **Changes to inventories and statistical discrepancy make up the balance of 0.6% of GDP.**

## CONSUMPTION

Over the past year to March 2020, real consumption has grown only 0.9%, and in the March quarter, it was 0.24% below the levels of a year ago.

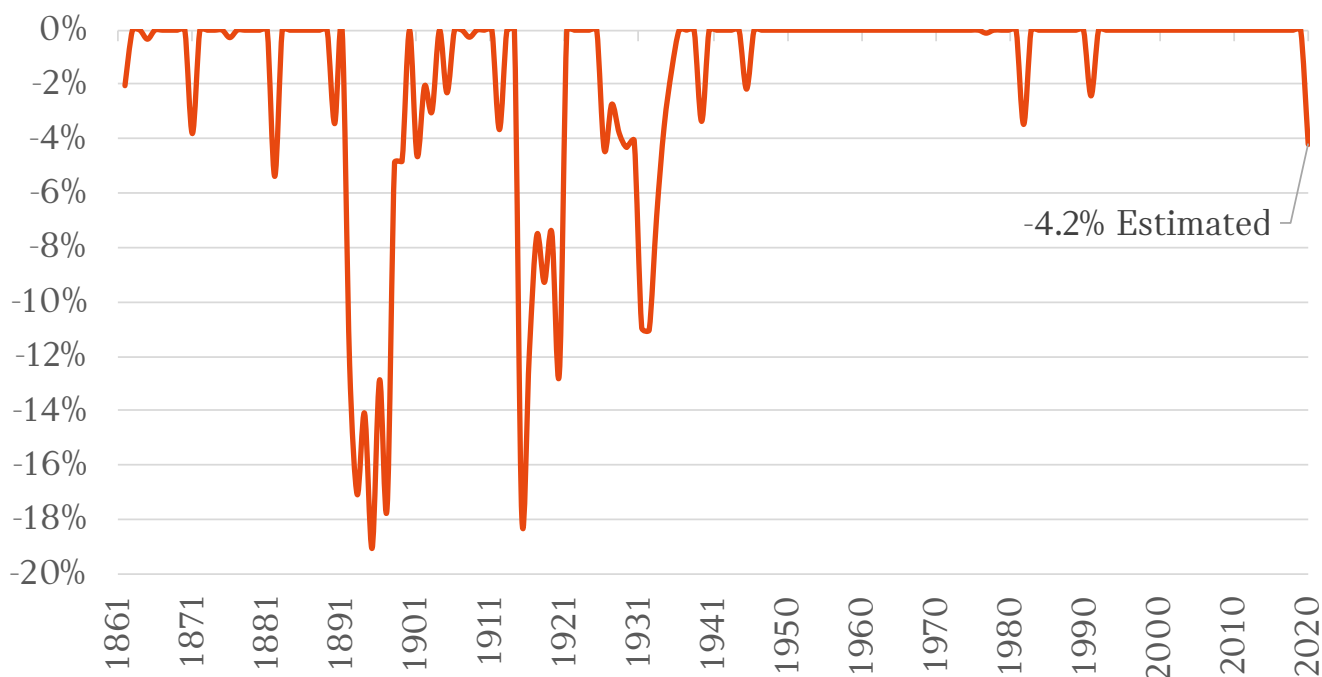
Since the 1960's, real consumption expenditure has grown on average by 3.5% per annum, reflecting rising population levels and higher worker productivity and wages. The worst year for consumption spending since 1959 was 1961, when annual spending fell 0.24%.

Due to the coronavirus induced lock-down, most economists expect consumption spending to fall 7.1% in Calendar Year (CY) 2020 before recovering to +4.1% in CY 2021. This would be, by far, the worst fall in consumption spending in post war Australian economic history.

In fact, if we look at the annals of Australian history, we must delve back to 1931, where consumption expenditure fell by 23.7% to find its equal.



## Drawdown in Australian GDP



### INVESTMENT

Consumption is arguably easier to forecast due to the essential nature of much of what we spend. Investment, on the other hand, is heavily influenced by business sentiment and the availability of credit. The standard deviation of consumption spending is low, at only 1.56% per annum versus investment spending which is 6.92% per annum. Economic forecasts investment spending in the Australian economy to be -21.2% in 2020 before recovering strongly in 2021. The 2020 estimate is a dramatic fall from the -3.6% year-on-year and quarter-on-previous corresponding quarter March 2020 reading.

Looking at Australian economic history, investment spending generally collapses during economic downturns, but a 20% decline has not been experienced since the Second World War, where private investment collapsed as government spending took over.

### GOVERNMENT SPENDING

What has differentiated the current "crisis" from those in living memory is the level of central bank monetary stimulus and government fiscal stimulus. Government spending is forecast to rise from \$474.5m in the year to March 2020

to almost \$500b in FY2020 and again by another 3.3% or \$16 billion in CY 2021. Job-keeper, Jobseeker and other government stimulus measures are due to roll off in September this year.

### EXPORTS MINUS IMPORTS

The slowdown in the domestic economy has seen import levels fall substantially from their highs and over the next year, economists expect imports to fall by 7.4%, in line with the 7.1% fall in consumption spending. As the Australian economy has "opened up" over the past 30 years, import growth of 5.6% per annum since 1959 has outgrown overall GDP and consumption growth of 3.5% per annum.

Exports have been a bright spot for the economy in recent times thanks to a combination of a stronger Chinese economy and buoyant commodity prices. Export income is forecast to fall by 6.8% this year before rebounding 6.8% next year as global GDP recovers.

In combination, GDP is expected to decline by 4.2% in 2020 before recovering 3.8% in CY 2021. To put this into context, this would be the worst outcome since the Great Depression.

### DRAWDOWNS IN GDP

Of critical importance to the stock market is the employment outlook. The latest labour market read is of an unemployment rate of 7.1%, but this is influenced by many workers who have "left" the workforce due to being furloughed or asked to take leave. Economists expect unemployment to rise to 8.1% in the 3rd and 4th quarter of 2020 before recovering to 6.4% in 2021 and 5.8% in 2022.

### CASH RATES

Cash rates are expected to remain at 0.25% for the foreseeable future based on a consensus view that GDP growth will be -4.2% in CY2020, 3.8% in CY 2021 and 3.1% in CY 2022.

**Peter O'Connor**

**Senior Analyst, Metals and Mining**

ShawandPartners  
an EFG company



**The gold price  
multiyear thesis**

## The gold price multiyear thesis

It's not often that we get to map out a multiyear view on an equity/commodity. But the outlook for US real rates (staying low/negative) and the correlation of this marker to USD gold price highlights that we are in for a period of elevated gold price for an extended timeframe, perhaps several years.

We are more focussed on the journey – the profile and duration – than the price peak per se, suffices to say the 22nd August 2011 USD gold price high will likely be breached, sooner than later, and push prices higher with expectations for a US\$2,000 print likely as an initial milestone once the 2011 price high (~US\$1,800/oz) is breached in coming months. (Chart 1)

### DÉJÀ VU - PATHWAY TO 2024

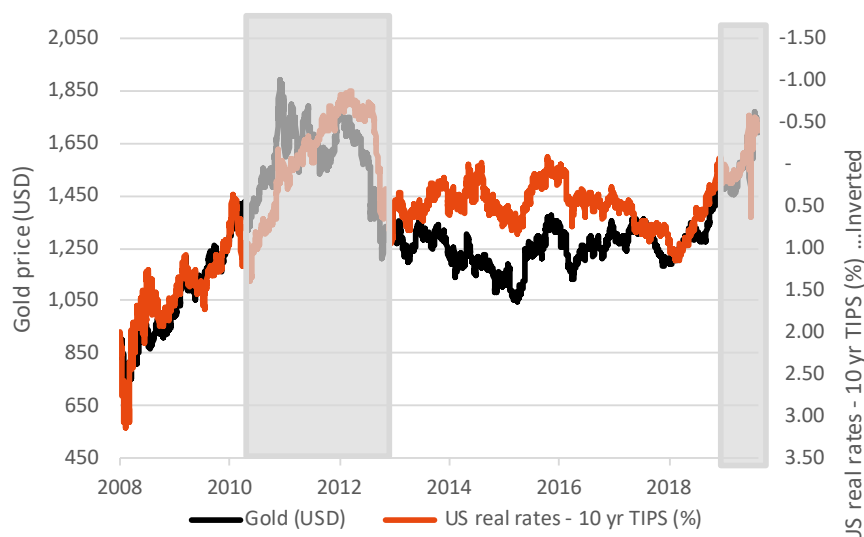
It feels a lot like 2009-10 again when gold price responded to post GFC financial stimulus (quantitative easing). The latest inflection point in global quantitative easing occurred on 23 March 2020 with the US Federal reserve Chairman highlighting that the Fed would do “whatever it takes” to ensure a successful pathway through the current Covid-19 pandemic. ears to come. This position was also backed by a broad range of major global central banks.

This pivot in global monetary policy will play out in fixed income markets for years to come maintaining interest rates at low, and in many cases negative. Importantly, real interest rates (US 10 years) are dipping back into the negative again for the first time since 2010-13.

**GOLD PRICE IS EXPECTED TO BREACH 2011 HIGH (Chart 1)**



**GOLD PRICE, 2020-23 COULD GET INTERESTING (VS REAL RATES) (Chart 2)**





## GOLD - SUMMARY AND PERFORMANCE (CHART 4)

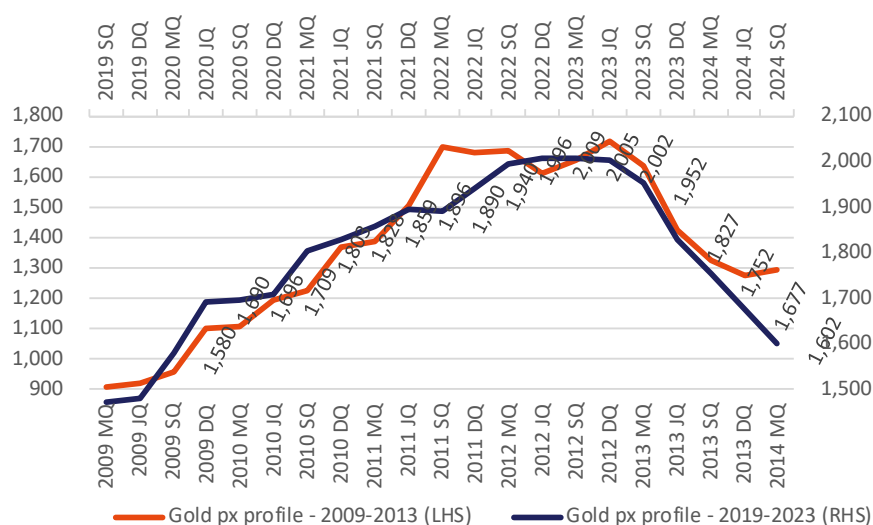
3/07/2020	Ticker	Rating	Share Price \$/sh	Target Price \$/sh	Capital gain %	DPS Yield NTM %	Total Return TSR (%)	Mkt Cap (A\$m)	EV (A\$m)
Newcrest Mining	NCM	Buy	32.59	41.00	25.8%	1.6%	27.4%	26,596	16,913
Evolution Mining	EVN	Buy	6.00	6.50	8.3%	2.2%	10.5%	10,226	8,570
Northern Star Resources	NST	Buy	14.22	18.00	26.6%	2.1%	28.7%	10,296	8,907
Ramellius Resources	RMS	Buy	1.99	2.43	22.0%	2.5%	24.5%	1,612	1,504
Geopacific Resources	GPR	Buy	0.40	1.37	242.5%	0.0%	242.5%	70	32

## GOLD - SUMMARY AND TARGET PRICE UPSIDE (CHART 5)

14/05/2020	NPV \$/sh	P/NPV x	P/NPV Spot	Target Price \$/sh	Total Return TSR (%)	NPV Multiple x	Target Price \$/sh	Total Return TSR (%)	NPV Multiple x
Newcrest Mining	27.60	1.18	0.69	41.00	27%	1.5	55.20	169%	2.0
Evolution Mining	4.25	1.41	1.04	6.50	29%	1.5	8.51	142%	2.0
Northern Star Resources	12.28	1.16	0.85	18.00	11%	1.5	24.56	173%	2.0
Ramellius Resources	1.62	1.23	-	2.43	22%	1.5	3.24	163%	2.0
Geopacific Resources	1.37	0.29	-	1.37	243%	1.0	2.74	685%	2.0

## WHAT IF GOLD PRICE 2020-23 TRACKS THE 2009-13 PROFILE (Chart 3)

Gold price and real interest rates are well correlated (Chart 2) highlighting that gold price will likely track higher as interest rates remain low/negative. In short gold price (USD) and by extension gold equities are likely to trend higher over the next several years.



Source: Shaw and Partners, FactSet

The gold price pathway to 2024 could very well approximate that delivered between 2010-13 (Chart 3). The important points to note about this price trend are (i) the price journey evolved over 2-3 years and (ii) the price plateaued for not just a day, week, month or quarter but for a period of around 5 quarters.

To the former point we note recent commentary from the US central bank highlighting that real interest rates could remain negative until 2023.

### BUY, SELL, HOLD

The outcome and investment conclusions are relatively binary with a rising USD gold price likely to take gold, and related, equities higher. We have BUY ratings on ALL gold names in our coverage – EVN, NCM, NST, RMS and GPR (Chart 4) with an unweighted total shareholder return of 36%.

### TARGET PRICE MILESTONES

We typically set and link our target prices with relevance to company NPV valuations with a thru the cycle range of 0.7x to 1/3x (target price vs NPV multiples). Specifically, for gold names we have learnt over time that a 1.5x multiple is by no means stretched (Chart 5). In fact 2.0x on a price to NPV basis is neither unreasonable nor impossible not least given the trading pattern of local gold miners in 2015-16.



## The gold price multiyear thesis

We have BUY ratings on  
Newcrest Mining  
Evolution Mining  
Northern Star Resources  
Ramelius Resources  
Geopacific Resources

### RISKS TO OUR GOLD PRICE VIEW

**Deflation** – The markets response to the recent (~March 9, 2020) oil market stoush between key players Russian and Saudi/OPEC was alarming. Real interest rate expectations whipsawed nearly 120bp from negative to positive and gold price gave back ~US\$200/oz ~12% in just 8 days.

**Growth** – Unprecedented has been much overused term of late ... but what if the unprecedented monetary and fiscal policy measures announced thus far in 2020 combined with a rapid and safe restart to the global production treadmills – I think that would be deemed a “V” shaped recovery

**Global détente** – What if we all got along well – “we” being all global countries, communities and non-state entities - and geopolitical risks diminished, growth recovered, and devalued currencies allowed debt

burdens to be retired. Sounds unlikely, and it probably is, but a risk to the gold price backdrop, nonetheless.

### SUMMARY

The negative real rate and gold price journey will likely be a multi-year phenomena. Gold price and gold related equities will trend & stay higher for as long as the current, and projected, price tailwinds, continues.

That may sound obvious but lessons learnt from other sector performances; (i) alumina 2018-19, (ii) coal 2016-18 and (iii) gold 2015-16, highlighted that valuation metrics and share price performance move higher, and stay higher, for as long as the underlying price trend is favourable – assuming a similar dynamic to 2009-13 would see a 1-2 year period of performance. Earnings, cashflow and valuations will follow.

**We have BUY ratings on all our gold coverage – Newcrest Mining, Evolution Mining, Northern Star Resources, Ramelius Resources and Geopacific Resources.**



Jonathon Higgins

Analyst, Consumer Discretionary  
Information Technology

Why tech companies  
are outperforming



## Why tech companies are outperforming

Much if not all the world is currently in recession and the outlook is somewhat uncertain, with a range of various V, U, L, W and other shaped recovery scenarios being floated around the market. Within this environment there's a premium on growth, certainty and technology companies are benefiting.

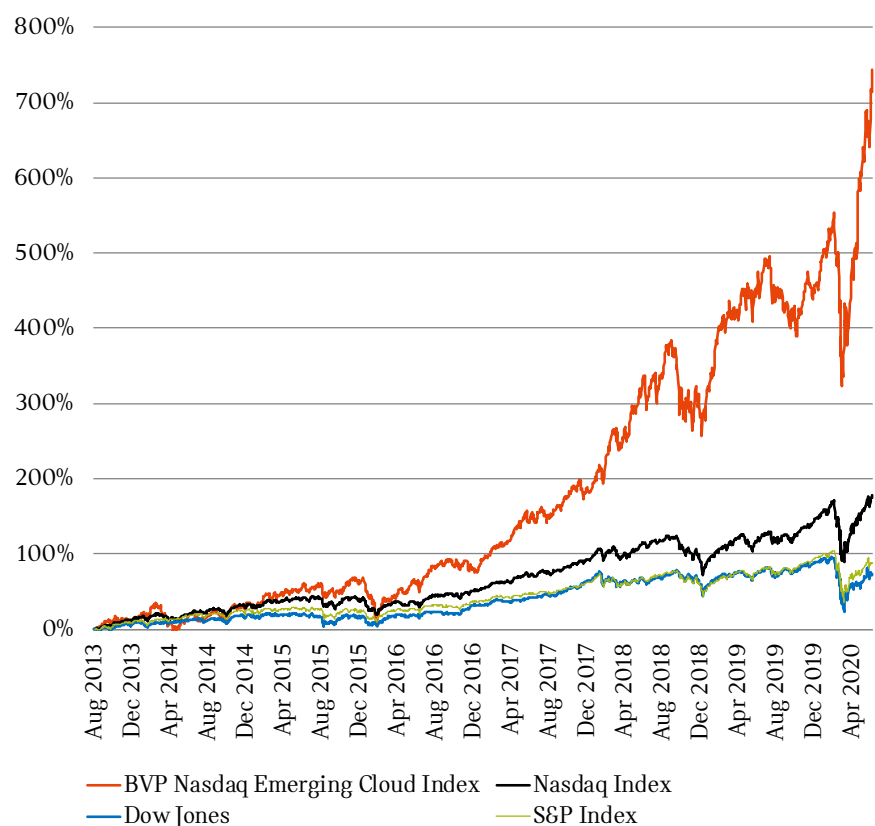
**The technology sector has been the best performing sector globally since COVID began. This is not just an Australia phenomena but is globally relevant.**

The median technology stock performance in Australia has outperformed the broader market by ~7% since COVID began, the Nasdaq is at record highs and leading BNPL companies such as APT and Z1P are at all-time highs. This continues techs outperformance over the near past, with US tech outperforming the broader market by 2.5x over the last 5 years and emerging cloud outperforming the broader market by over 10x.

In the COVID and post COVID world many technology companies are benefitting from a significant strengthening in structural tailwinds. This is for a variety of reasons which include:

- Recurring income
- Shift to work from home
- Requirement to adopt cloud based environments and software
- Extendibility of products
- Shift to online and changing consumer habits
- Communication tools
- Dynamic capability to respond to crises.

**In the past five years, emerging cloud companies have outperformed the broader market internationally by 10x.**



Source: Shaw and Partners, FactSet

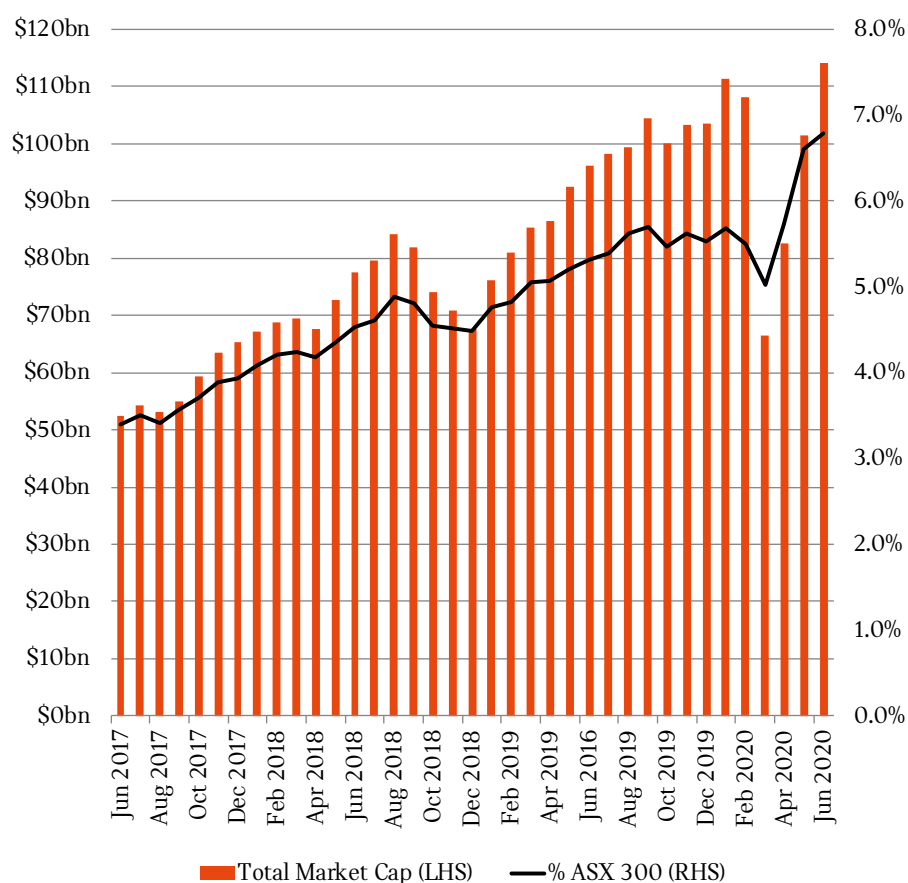


**In many of these cases the opportunity for technology represents a step change in total addressable market (TAM) and is unlikely to be given back. As an example online retail sales have taken market share and grown in the USA every year and during COVID this has peaked at over 26%. In our view bricks and mortar retail, office and old world habits have been structurally changed**

Against this backdrop, technology on the ASX has become even more relevant. The Shaw and Partners Technology index now accounts for ~7% of the ASX 300 by market value and has a capitalisation greater than pre-COVID which is now over \$115Bn in size and dominated by a number of global home grown technology companies.

Growth is tough to come by and buying growing companies has typically been a good strategy over a long period of time. In this context it is interesting to note that technology in FY21 is expected to grow 4x that of the broader market.

**Market Cap Shaw and Partners Tech Index**



**Ignore technology at your own or portfolios peril.  
Structural tailwinds for the new age have strengthened during COVID.**



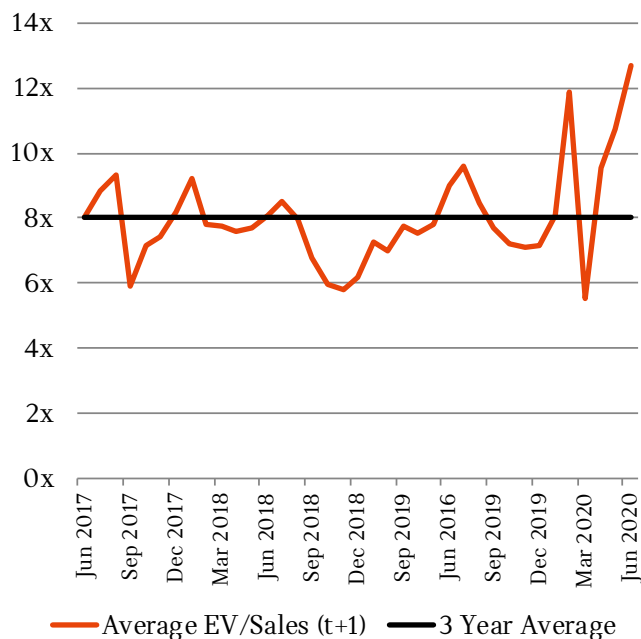
## Why tech companies are outperforming

Company	Forecast Growth	Share Price Return Since COVID 19	Company	Forecast Growth	Share Price Return Since COVID 19
ASX 300	4%	-20%	Superloop	12%	14%
Titomic	94%	-29%	Seek	12%	-19%
Zip Co	126%	41%	Carsales	11%	-15%
Afterpay	65%	33%	Money 3	11%	-43%
Megaport	34%	18%	Hub24	16%	-6%
Livetiles	34%	-34%	RedBubble	10%	-4%
Livehire	31%	-17%	Bravura	10%	-22%
EML	29%	-40%	Infomedia	10%	-25%
Citadel	22%	-45%	IRESS	10%	-21%
Frontier Digital	20%	-19%	Integrated Research	9%	15%
NextDC	19%	16%	REA	9%	-12%
Elmo	19%	-16%	Technology One	8%	2%
Altium	18%	-23%	Austosports Group	8%	-39%
Wisetech	18%	-32%	Praemium	8%	-18%
Appen	17%	12%	Link Administration	6%	-30%
Rhipe	22%	-15%	Data#3	5%	2%
Nearmap	15%	5%	Audinate	22%	-31%
Pro Medicus	15%	9%	OneVue	4%	25%
Class	15%	-36%	Codan	4%	-19%
Xero	15%	-5%	Hansen	1%	-19%
Catapult Group	15%	-49%	RPM Global	1%	-10%
Arq Group	13%	-65%	Computershare	-2%	-29%
Pushpay	12%	38%	Atomos	-6%	-62%

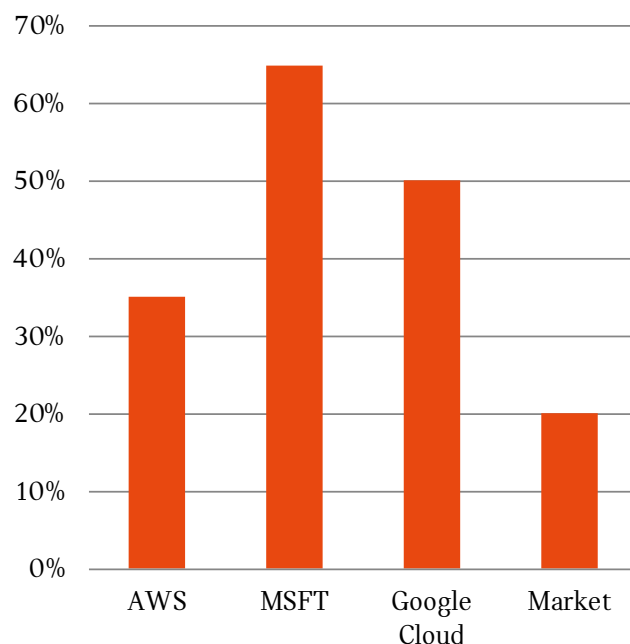
The world is turning more Japanese,  
growth will be lower with interest  
rates also lower for longer.



EV/Sales (t+1) ASX Tech



1Q-CY20 Public Cloud Growth by Vendor



Major infrastructure as a service cloud providers are growing over 30% p.a. and are some of the largest and most dominant companies globally”

**This growth does however come at a cost with the Shaw and Partners technology index trading at all-time valuation highs. Following a bottoming of forward EV/Sales multiples during COVID the index has rallied substantially and re-rated with a significant amount of equity raised and rotation having occurred.**

**Currently the average forward EV/Sales multiple for our tech index is now over 12x which is a 58% premium to the 3 year average.**

In this context technology is not cheap as a whole and not all stocks have performed equally within Australia and overseas. Cloud, payments, online and those stocks benefitting have outperformed materially.

**Whilst we prefer these stocks, the shift to quality and recurring earnings within tech we do note that current multiples/valuations appear elevated, particularly in key leaders.**

Whilst remaining comfortable with long term growth trajectories, it's worth investigating holdings and revisiting low conviction picks with our index at an all-time high multiple.

**We retain a bias towards smaller high growing businesses that can demonstrate an ability to be mobile and continue growing during COVID and during a lower for longer environment for growth. This is particularly the case in a low interest rate environment where growth is difficult to come by.**

Major structural thematic we like include:

- Shift to the cloud and opex/recurring business models;
- New age payments and instalment/fin-tech lending in the digital economy (such as BNPL);
- Online sales and digital leverage;
- Offshore technology exposure; and
- Shift towards independence in wealth and technology.

Please speak to your Shaw and Partners advisor for an investment menu and options on technology and other growth stock exposure both domestically and internationally.

# Shaw Managed Accounts

## Portfolio Performances – May 2020

		3 Mth	6 Mth	1yr	2yr	Inception
<b>Shaw Income Goal Portfolio</b> Objective: RBA Cash +3% Inception: Sep-17	<b>Total Portfolio Return</b>	<b>-4.51%</b>	<b>-5.95%</b>	<b>-0.72%</b>	<b>3.62%</b>	<b>4.58%</b>
	Portfolio Objective	0.83%	1.76%	3.78%	4.16%	4.26%
	Excess v Objective	-5.34%	-7.71%	-4.50%	-0.54%	0.32%
<b>Shaw Balanced Goal Portfolio</b> Objective: RBA Cash +4% Inception: Sep-17	<b>Total Portfolio Return</b>	<b>-5.06%</b>	<b>-8.24%</b>	<b>-3.01%</b>	<b>2.26%</b>	<b>4.52%</b>
	Portfolio Objective	1.07%	2.25%	4.76%	5.13%	5.23%
	Excess v Objective	-6.13%	-10.49%	-7.77%	-2.87%	-0.71%
<b>Shaw Growth Goal Portfolio</b> Objective: RBA Cash +5% Inception: Sep-17	<b>Total Portfolio Return</b>	<b>-4.04%</b>	<b>-7.85%</b>	<b>4.43%</b>	<b>5.29%</b>	<b>9.21%</b>
	Portfolio Objective	1.32%	2.75%	5.80%	6.19%	6.29%
	Excess v Objective	-5.36%	-10.60%	-1.37%	-0.90%	2.92%
<b>Debt Securities Income Portfolio</b>	Total Portfolio Return	-0.99%	-0.21%	2.52%	4.28%	3.76%
	Inception: Sep-17					
<b>Hybrid Income Portfolio</b>	Total Portfolio Return	0.19%	-0.16%	1.35%	4.79%	5.77%
	Inception: Sep-16					
<b>Australian Equity (Large Cap) - Income</b>	Total Portfolio Return	-12.66%	-16.30%	-7.70%	2.52%	4.09%
	Inception: Sep-17					
<b>Australian Equity (Large Cap) - Core</b>	Total Portfolio Return	-13.94%	-21.47%	-15.04%	-2.13%	5.99%
	Inception: May-16					
<b>Australian Equity (Large Cap) - Growth</b>	Total Portfolio Return	-6.91%	-12.87%	6.09%	7.65%	12.34%
	Inception: Sep-17					
<b>Australian Equity - Small and Mid Cap</b>	Total Portfolio Return	-5.87%	-9.94%	0.70%	1.01%	5.40%
	Inception: Sep-17					
<b>Shaw Liquid Alternatives Portfolio</b>	Total Portfolio Return	-0.14%	1.06%	1.22%		-0.04%
	Inception: Aug-18					
<b>AB Concentrated Global Growth</b>	Total Portfolio Return	3.00%	1.50%	18.12%		15.38%
	Inception: Jan-15					
<b>EFG US Future Leaders Portfolio</b>	Total Portfolio Return	18.91%	23.32%			15.71%
	Inception: Jul-19					





# 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.

**Suncorp Group (SUN)** is a financial services company, which provides banking and wealth, as well as insurance products and services across Australia and New Zealand. The company operates its business through the following segments: General Insurance, Banking and Life.

**Newcrest (NCM)** has five operational mines - Cadia Valley (NSW), Telfer (WA), Lihir (PNG), and Gosowong (Indonesia) - and a significant development project in Wafi Golpu JV (PNG). Plus investment in tier one opportunities - Fruta Del Norte and SolGold (both Ecuador)

**Western Areas (WSA)** is a mineral exploration company, which engages in mining, processing and sale of nickel sulphide concentrate, the continued feasibility and development of the nickel mines, base metals and platinum group metals. The company is headquartered in West Perth, Australia.

**Openpay (OPY)** which is headquartered in Melbourne, Australia, is a fintech company that partners with merchants to provide Buy Now, Pay Later (BNPL) repayment plans to customers in-store, in-app and online. IPO on 16 December at \$1.60ps.

**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.

**Strandline Resources (STA)** engages in the exploration and evaluation of mineral properties. The company holds interests in the Tanzania Heavy Mineral Sands (HMS), Coburn HMS, and Fowlers Bay Nickel projects. It operates through the Australia and Tanzania geographical segments. The company was founded in May 2000 and is headquartered in West Perth, Australia.

**Geopacific Resources (GPR)** is developing the Woodlark Gold Project on Woodlark Island in PNG. First production is expected in 2022 and the operation will produce approximately 100koz of gold per annum over a 13 year mine life.

**Damstra (DTC)** provides workplace management solutions. It develops, sells and implements integrated hardware and software-as-a-service ("SaaS") solutions. The company was founded in 2002 and is headquartered in South Yarra, Australia.

**Probiotec (PBP)** is one of the largest integrated pharmaceutical and OTC manufacturers within Australia. The company was founded in 1997, listed on the ASX in 2006 and is headquartered in Laverton Victoria. PBP offers a full suite of manufacturing services from formulation, sourcing, packaging and distribution. The company has long term contracts with a range of multi-national companies.



## Commonwealth Bank (CBA)

<b>Recommendation</b>	<b>Buy</b>
<b>Risk</b>	<b>Low</b>
<b>Share Price (as at 2 July 2020)</b>	<b>\$71.10</b>
<b>Target Price</b>	<b>\$70.00</b>
<b>Analyst</b>	<b>Brett Le Mesurier</b>

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	7.58%	18.94%	-17.15%

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

- Amongst the major banks, only CBA has maintained a steady rate of Australian home loan growth over the past 2 years. In contrast, ANZ's Australian home loan balances have been declining for the past 18 months, NAB's balances have been declining for the past year and WBC for the past 6 months.
- CBA achieved \$4.1bn growth in home lending and \$5.9bn growth in business lending during 3Q20, which are growth rates of 3% p.a. and 12% p.a., respectively. This produces growth for total loans of 5% p.a.
- CBA's income is forecast to be stable from 1H20 to 2H20. CBA reported 3Q20 income which was the same as the quarterly average of 1H20. Non-interest income fell by 2% over the period as a result of lower banking fees while NIM decline offset the loan growth of 1% from 31/12/19 to 31/3/20. 1% increase in income is forecast from FY20 to FY21 as little NIM decline is expected.
- Expenses, excluding notable items, fell by 1% from the quarterly average of 1H20 to 3Q20. Expenses are expected to increase in 4Q20 as a result of more staff required to deal with COVID-19 fallout. They are forecast to increase by 1% from 1H20 to 2H20 and by another 1% from FY20 to FY21.
- CBA's CET1 should be strengthened by approximately 70 bps in 1H21 from the announced business sales which puts this ratio at 11.4% on a pro forma basis at 31/3/20.

### Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	480.9	433.2	424.7
Dividends (AUD) cps	431.0	300.0	340.0
PE x	17.2	16.1	16.4
Yield %	5.2%	4.3%	4.9%
Franking %	100%	100%	100%

## Suncorp (SUN)

<b>Recommendation</b>	<b>Buy</b>
<b>Risk</b>	<b>Medium</b>
<b>Share Price (as at 2 July 2020)</b>	<b>\$8.96</b>
<b>Target Price</b>	<b>\$10.00</b>
<b>Analyst</b>	<b>Brett Le Mesurier</b>

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-0.11%	11.89%	-33.54%

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

- SUN had excess CET1 capital of \$691m at 31/12/19 (net of the interim dividend payment) and this declined slightly to \$682m at 31/3/20 as a result of the investment income mark-to-market loss and \$133m management overlay for bad debts in the bank.
- It also announced the conversion of \$171m of hybrids into equity to increase the SUN's capital position.
- The fact that the company elected to convert the hybrids may suggest that there is effectively no excess capital. If this is true, then a final dividend may not be paid.
- The alternate view is used in the forecast, which is that this will provide the capital to fund the payment of a final dividend and this is consistent with APRA's recent approach. \$171m equates to 13 cps, but a more modest final dividend of 10 cps is forecast.
- SUN's 1H20 insurance margin was 6% and was adversely affected by natural perils which reduced the margin by 2.5% or \$109m. In 2H20, investment income on policyholders' funds is forecast to incur a \$125m mark-to-market loss and expenses are expected to increase by 2% of NEP, which includes the historic under-payment of staff. The 2H20F insurance margin is 5% of NEP.
- A recovery to an insurance margin to 9.5% is forecast for FY21 which assumes no further adverse investment performance in that year and average natural peril costs. A heightened bad debt charge of \$180m is forecast for FY21 and cash EPS for the company of 67 cps. The FY22 forecast includes a reduction in the bad debt charge to \$110m, an insurance margin of 9.5%, cash EPS of 74 cps and a dividend of 50 cps. This forecast is consistent with the \$10 share price target.

### Forecasts

YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	86.5	44.7	67.4
Dividends (AUD) cps	78.0	36.0	45.0
PE x	15.6	20.7	13.7
Yield %	5.8%	3.9%	4.9%
Franking %	100%	100%	100%

## Newcrest (NCM)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$32.59
Target Price	\$41.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	2.65%	27.09%	-1.75%

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

## Western Areas (WSA)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$2.69
Target Price	\$3.00
Analyst	Peter O'Connor

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	14.04%	42.86%	32.32%

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

### Abundant tier 1 growth opportunities

- NCM's growth/portfolio positioning has for some time mapped out a "Five tier one asset" target. The definition of tier one being "production of >300koz pa and 15-year resource/mine life and AISC <US\$800. The current portfolio includes 2x tier one assets – Cadia (NSW) and Lihir (PNG) and NCM has been adding/targeting early stage and advanced opportunities including
- Wafi Golpu (50%) – PNG – Waiting on the PNG Special Mining Licence (SML) which has been delayed due to elections and other political machinations. But likely a Cadia look alike with significant copper by-product credits driving very favourable economics
- Red Chris (70% JV stake) – North America – Current small, high cost copper/gold operation but the prize is in Cadia look alike exploration prospectivity
- Lundin Gold (32% equity, 100% of funding, gold stream, gold pre-pay etc) – Ecuador, producing gold mine ~340koz pa for 13-year current mine life, AISC of US\$623/oz
- Haverton (earning 70%) – Western Australia (Patterson Range) – The best way to think about this one is that it could be equal to 1/3 of Evolution without major mill/plant capex (located just ~50km from the companies "hungry" Telfer mill). Exploration continues to provide upside with first resource statement due in 2H 2020 followed by the start of an exploration decline form end 2020/early 2021) that will ultimately become a production decline = prodn only a couple of years away.
- SolGold (~15%) – Ecuador – NCM and BHP going head to head to get a foot on what could be another Cadia look alike ... there is room in this for both = NCM mining expertise and BHP balance sheet

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	73.1	94.1	156.0
Dividends (AUD) cps	30.8	27.5	53.1
PE x	30.7	23.0	13.9
Yield %	1.0%	0.9%	1.7%
Franking %	0%	0%	0%

### Major nickel deposit potential revealed in recent drill hole

- WSA recently revealed a potentially significant nickel and copper bearing mineralization in South Australia. These discoveries are rare with some recent examples; (i) Voiseys Bay Canada, 1993, in production, owned by Vale, (ii) West Musgrave (Nebo Babel) Western Australia, 2000, at FS stage, with OZL assuming full ownership via announced takeover of Partner, Cassini Resources (22 June), (iii) Nova Bollinger, Fraser Range, Western Australia 2012, in operation since 2015, owned by IGO, (iv) Sahara prospect, Gawler craton ... WSA current drilling/exploration. WSA originally targeted this area due to its geological similarities to the Nova-Bollinger and Nebo-Babel nickel/copper deposits. The highest return on capital is invariable via the drill bit ... even the best M&A contains some premium for another person/companies work.
- Other reasons to BUY WSA; (i) Valuation: WSA is the 4th cheapest name in our coverage (~0.7x P/NPV), (ii) sector M&A focus suggests repositioning ahead of a long anticipated nickel market tightening, (iii) growth options – WSA has mapped out a range of option to take the production well into the next decade (2030's) & (iv) recent drill results noted above.
- A lot of activity in the nickel equity space in recent weeks/months; BHP acquires acreage from Norilsk, WSA takes a ~20% stake in junior Panoramic, IGO continues to favour the drill bit in the very prospective Fraser Range but also added a ~20% stake in New Century Zinc (preferred bidder for the massive Goro nickel laterite project in New Caledonia and Nickel Mines continues to add to its equity position in the suite of Indonesian nickel projects etc .

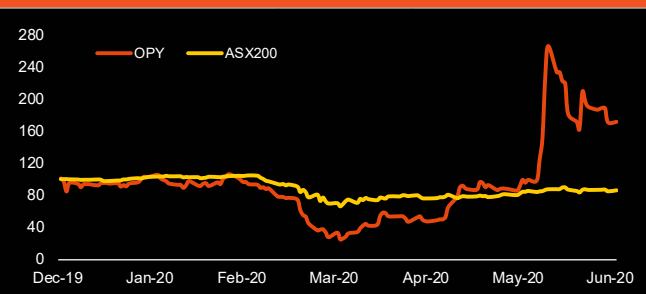
Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	5.2	14.9	17.5
Dividends (AUD) cps	2.0	2.0	2.0
PE x	37.9	17.8	15.1
Yield %	1.0%	0.8%	0.8%
Franking %	100%	100%	100%



# Openpay (OPY)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$2.34
Target Price	\$3.25
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

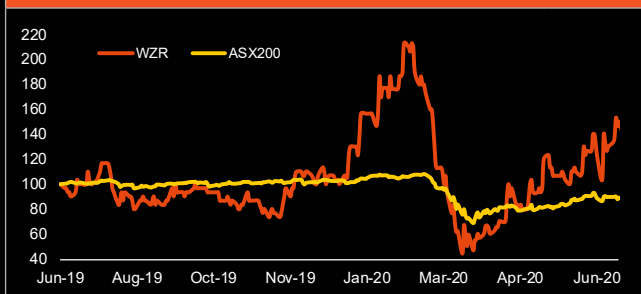
	1 mth	3 mth	12 mth
Relative Performance*	65.89%	386.36%	nm

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

# Wizr (WZR)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$0.23
Target Price	\$0.35
Analyst	Danny Younis

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	24.24%	141.18%	36.67%

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

## Accelerating Momentum and Financially Secure

- May 2020 was a record month showing no deleterious impacts from COVID-19 and we believe this has continued into June – this continues on from 3Q20 with ALL performance metrics trending strongly in the right direction (customers +131%, merchants +50%, TTV +95%) highlighting the significant and accelerating momentum in the business, all of which translates into solid revenue and gross profit longer-term. Bad debts and arrears are now back to 'normalised' levels.
- Secured £25m debt funding facility with Global Growth Capital (GGC), a leading fintech lender.
- Differentiated model to BNPL peers who are simply replicating APT model – (1) pursuing UK channel whilst other largely homogenous BNPLs pile into the US; (2) higher ATVs; (3) more flexible plans with longer tenures; (4) targeting an older demographic; (5) focussing on verticals outside Retail such as Healthcare, Home Improvement and Auto (6) B2B capability with SaaS portal with WOW and agreement with Pentana (1,900 car dealer deployment); and (7) moving into new vertical channels with pilots underway in Memberships and Online Education – e.g. payment of school fees and sports clubs/associations.
- Robust and very strong balance sheet post \$34m cap raise with ~12 quarters of cash (i.e. 4 years) – and OPY also trades at a significant – and attractive – 50% discount to listed BNPL peers on an FY21 EV/Sales multiple of just 5x vs. combined 11x (consensus) for APT, SPT, SZL, Z1P.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	-16.3	-37.9	-25.0
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	-5.5	-8.4
Yield %	nm	0.0%	0.0%
Franking %	0%	0%	0%

## Momentum Accelerating: Loan Vols Up, Bad Debts Fall, Credit Quality Up, Funding Secure

- 4Q20 to date loan originations of \$23.1m, taking cumulative book to \$226m – this comes on the back of a record 3Q20 print of \$39m in cumulative loan originations. To put this in perspective, time taken to generate \$50m in volume growth continues to accelerate: 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 recently \$50m+ written in <4 months, as highlighted below. Current loan book is >\$150m (predominantly comprising the new, high margin, low cost NAB facility).
- NAB facility improves margins (NIM >3x) and improving overall loan unit economics – with strong credit quality of 90+ day arrears at 31-May-2020 of 1.62% across its entire loan book (new NAB facility ~0.2%) and is now very well capitalised post the cap raise.
- 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.
- High quality operational metrics all improving – customers are only the top shelf prime credit with average credit score of 712 vs. Big 4 banks' ~625 vs. industry average ~600.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	-1.3	-1.3	-0.9
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%

## Geopacific Resources (GPR)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$0.40
Target Price	\$1.37
Analyst	Andrew Hines

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-25.00%	77.27%	-25.71%

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

### One of the cheapest gold developers on the ASX

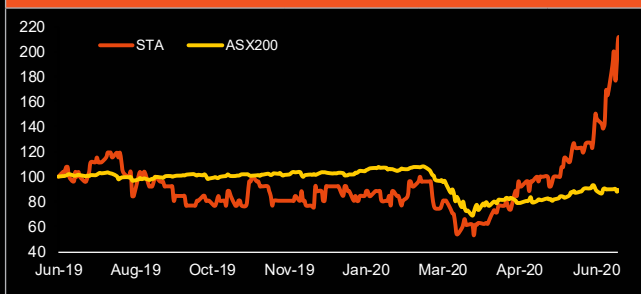
- Geopacific Resources is developing the Woodlark Gold Project on Woodlark Island in Papua New Guinea. The project is fully permitted and early construction has commenced.
- Woodlark is a standard and simple open cut mining operation and carbon-in-leach (CIL) processing plant which will produce ~100koz of gold per annum over a 13 year mine life. On our forecasts the project has a 2 year payback, an IRR of 52% and an NPV @10% of A\$341m.
- Once in production (expected in 2022), at today's share price Geopacific will be trading on a PE multiple of just 1.3x and an EV/EBITDA multiple of 0.2x. Geopacific is one of the cheapest gold companies listed on the ASX with an EV/resource of A\$15/oz compared to a sector average A\$226/oz.
- The A\$ gold price recently hit an all-time high of A\$2,720/oz and we expect the US\$ gold price to continue rising and peak at around US\$2,000/oz in late 2022. At spot gold our NPV of the project increases to A\$545m (A\$1.57ps on a fully diluted basis).
- Woodlark has a resource of 47Mt at 1.04g/t for 1.57Moz gold and reserve of 28.9Mt @ 1.12g/t for 1.04Moz gold. There is significant exploration upside on the island and we expect to see ongoing resource upgrades. It would not surprise us to see the resource base increased to over 5Moz over time.

Forecasts			
YE 31-Dec	FY19	FY20E	FY21E
Earnings cps	-0.7	-2.5	-2.6
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-76.9	-76.9	-76.9
Yield %	0.0%	0.0%	0.0%
Franking %	0.0%	0.0%	0.0%

## Strandline (STA)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$0.28
Target Price	\$0.52
Analyst	Andrew Hines

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	65.63%	223.17%	103.85%

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

### Strong momentum towards Coburn FID

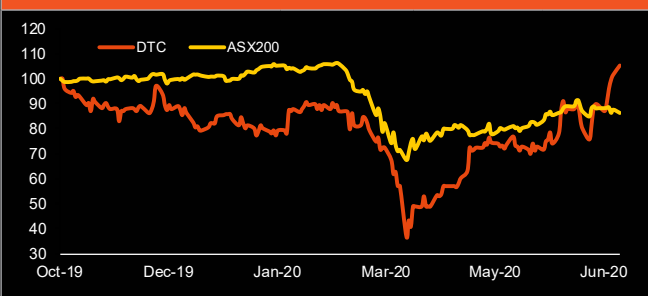
- Strandline Resources is a mineral sands development company with projects in Western Australia and Tanzania. The large Coburn project in WA is a world class resource which has all necessary permits and approvals and only requires financing. It will produce approximately 230kt of Heavy Mineral Concentrate (HMC) per annum with a mine life of 22.5 years. Coburn will supply about 5% of world zircon demand.
- Strandline has binding take-or-pay offtake agreements covering 66% of revenue for the first 5-7 years of production from Coburn with Chemours (ilmenite), Bitossi (premium zircon) and Sanxiang-Nanjing (zircon concentrate and HMC).
- Strandline will require \$300m to reach first production, which includes working capital. Strandline is aiming for 60-70% debt funding and 30-40% from equity (capital markets or strategic).
- Strandline is now moving to secure debt financing and strategic partner arrangements at Coburn. The debt package is in two tranches, a consortium of commercial banks (tranche A) and NAIF (tranche B) who are providing \$130m.
- Strandline is enjoying strong momentum following a series of positive announcements and we expect that trend to continue as the Coburn approaches FID. Upcoming catalysts include the remaining offtake agreements, potential strategic equity investments, and finalisation of the project finance debt facilities.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	-2.1	-1.7	-1.9
Dividends (AUD) cps	0.0	0.0	0.0
PE x	-6.1	-15.9	-14.3
Yield %	0.0%	0.0%	0.0%
Franking %	0.0%	0.0%	0.0%

## Damstra (DTC)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$1.35
Target Price	\$1.55
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

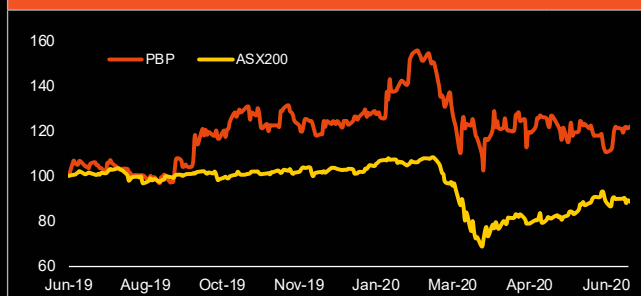
	1 mth	3 mth	12 mth
Relative Performance*	42.31%	115.83%	nm

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

## Probiotec (PBP)

Recommendation	Buy
Risk	High
Share Price (as at 2 July 2020)	\$1.95
Target Price	\$2.43
Analyst	Jonathon Higgins

Share Performance Chart



Source: FactSet, Shaw and Partners

	1 mth	3 mth	12 mth
Relative Performance*	-0.26%	5.77%	22.61%

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

### New age software, technology and COVID to feverishly accelerate

- DTC provides market leading employee management and workplace products across a range of sectors including construction, mining, telecommunications, utilities and government. DTC was listed in 2019 on the ASX and represents exposure to essential industries through a cloud and software based product set. 75% of group revenues are generated in licensing and 25% is generated internationally. Large blue chip clients include such examples as Glencore, NBN, CPB, Newmont, AGL and others.
- DTC has over 400 clients generates \$20m+ in recurring revenues, has over 380k users and is net cash and profitable. We expect DTC to demonstrate greater than 30% revenue growth each year over the near term, with operating leverage and greater international exposure.
- We expect COVID to significantly benefit DTC over both the near to long term. Near term expect group wins through selling COVID solutions for monitoring, temperature and tracking of employees. Longer term COVID is a change event and paper based, old and clunky solutions will be usurped by solutions such as DTC's. Expect the group to drive material ARR uplift in FY21.
- DTC trades at a 30-40% discount to comparable software peers on the ASX is relatively unknown and likely to grow through both organic and inorganic means. We expect DTC to outperform the broader market and with our technology overlay is one of our high conviction picks.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	0.0	0.4	1.3
Dividends (AUD) cps	0.0	0.0	0.0
PE x	nm	nm	94.6
Yield %	nm	0.0%	0.0%
Franking %	0%	0%	0%

### Unknown and undervalued with strong organic growth and net cash

- PBP is one of the largest vertically integrated manufacturers of OTC pharmaceutical products within Australia. The company delivers a range of services which range from IP, formulation, supply chain, packaging and distribution across many products including cough liquids, analgesics, tablets, vitamins and others.
- PBP delivers the majority of revenues via leverage to a diverse range of large multinational pharmaceutical and OTC companies including JNJ, BKL and others across long term contracts with a high visibility to earnings. PBP is currently delivering \$100m+ in revenues, is highly profitable, is in a net cash position and delivering double digit organic growth.
- We expect PBP to demonstrate continued double digit organic growth underwritten by structural tailwinds driving onshore growth to speciality OTC manufacturers. We also expect the company to be an active consolidator within the Australian market and see further accretive acquisitions as likely.
- PBP in our view is likely to be a major beneficiary of COVID. This is through near term demand for key pharma products in the Australian market, new product wins and a focus internationally on shoring up critical medical goods and supply.
- PBP recently re-iterated guidance and is one of the few companies on the ASX to do so.
- PBP currently trades at a discount to the overall market with net cash, a strong DPS profile and growing free cash flow.

Forecasts			
YE 30-Jun	FY19	FY20E	FY21E
Earnings cps	6.2	12.0	16.1
Dividends (AUD) cps	8.5	4.8	6.4
PE x	nm	nm	nm
Yield %	5.4%	2.5%	3.3%
Franking %	100%	100%	100%



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**WA RACE WEEK**  
PERTH, WESTERN AUSTRALIA

## SHAW AND PARTNERS WA RACE WEEK

### 21-28 NOVEMBER 2020 | SORRENTO WA

DATE	EVENT	DISTANCE	PRIZE MONEY
Sat 21 Nov	<b>FENN WEST COAST DOWNWINDER*</b> Fremantle to Sorrento Beach	24km	\$15,000
Mon 23 Nov	<b>SHAW AND PARTNERS TWILIGHT PADDLEBOARD CLASSIC</b> Trigg to Sorrento Beach	5.5km	\$12,000
	<b>A NIGHT WITH THE STARS</b> BBQ and Q&A at Sorrento SLSC		
Tue 24 Nov	<b>DR BEN HEWITT SUNSET SURFSKI SERIES 1*</b> Fremantle to City Beach	11km	\$4,000
Wed 25 Nov	<b>SHAW AND PARTNERS IRONMAN CLASSIC</b> City Beach		\$20,000
	<b>SHAW AND PARTNERS NIPPER CLINIC</b> City Beach		
Thu 26 Nov	<b>DR BEN HEWITT SUNSET SURFSKI SERIES 2*</b> Fremantle to City Beach	11km	\$4,000
Fri 27 Nov	<b>SHAW AND PARTNERS DASH FOR CASH*</b> Sorrento Beach	Sprints	\$15,000
Sat 28 Nov	<b>SHAW AND PARTNERS DOCTOR*</b> Rottnest Island to Sorrento Beach	27km	\$30,000
	<b>BONUS SHAW AND PARTNERS RACE WEEK POINTS SERIES PRIZE POOL</b>		\$100,000*

\*Must compete in all 5 ocean paddle races to qualify for Race Week points prize money

# \$200,000 PRIZE MONEY

# RECOMMENDATION DEFINITIONS

## RATING CLASSIFICATION

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
High	Higher risk than the overall market – investors should be aware this stock may be speculative
Medium	Risk broadly in line with the overall market
Low	Lower risk than the overall market.

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