# ASX gets shot in the arm from vaccine hopes

Equities

William McInnes

The Australian sharemarket extended its bullish run yesterday, supported by news a third vaccine candidate had proved effective in phase three trials, putting local shares on track for their best November on record.

The S&P/ASX 200 Index climbed 82.5 points, or 1.3 per cent, to 6644.1, hitting its highest level since February 27, with the market up 12.1 per cent for the month so far.

Pharmaceutical company AstraZeneca said on Monday late-stage trials showed its coronavirus vaccine was up to 90 per cent effective, giving public health officials hope they may soon have access to a vaccine that is cheaper and easier to distribute than some of its rivals.

While investors are hopeful the multiple vaccine candidates will quash the virus, allowing markets to return to normal, the rising number of COVID-19 infections across Europe and the US is a concern in the near term.

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> Chris Iggo, AXA IM Core Investments

"Markets want to trade with cyclical hope but we might be back in a wait-and-see regime for a few weeks," said Chris Iggo, chief investment officer at AXA IM Core Investments.

"Investors need to continue to believe, and with good reason, that policy is still there as a backstop to economic activity."

A bullish tone from the Reserve Bank of Australia's deputy governor, Guy Debelle, supported the gains through the afternoon, saying the central bank was cautious of removing stimulus too early, suggesting monetary policy would remain accommodative for the foreseeable future.

"In the Q&A, Debelle also suggested that he wasn't too concerned about keeping rates too low because the outlook didn't have employment or inflation overshooting," said Citi senior economist Faraz Syed. The major banks led the gains, buoyed by the prospect that more than one vaccine could be rolled out in 2021, supporting a recovery in the domestic economy.

Westpac climbed 2.6 per cent to $20.45, Commonwealth Bank advanced 2 per cent to $81.16, ANZ firmed 3.1 per cent to $22.97 and NAB added 2.6 per cent to close at $23.33.

The major iron ore miners were also firmer despite the ore price slightly sliding. BHP Group advanced 3.4 per cent to $38.30, Rio Tinto climbed 2.2 per cent to $103.13 and Fortescue Metals Group rose 2.7 per cent to $18.09. The vaccine news boosted oil prices, pushing the local energy sector firmly higher. Woodside Petroleum led the gains, rising 3 per cent to $22.64 while Origin Energy climbed 5.2 per cent to $5.05, Santos advanced 3.9 per cent to $6.36, Beach Energy firmed 8.2 per cent to $1.86, Worley firmed 5.5 per cent to $13.29 and Cooper Energy added 2.9 per cent to 36¢.

Mesoblast shares shot 4.4 per cent higher to $4.47, adding to its day-earlier gains following last week's $50 million deal with Novartis to license its cell therapy, remestemcel-L, in the treatment of COVID-19.

Stocks leveraged to the reopening trade got a big bump early in the session after Queensland's government said it would reopen state borders with New South Wales as of December 1.

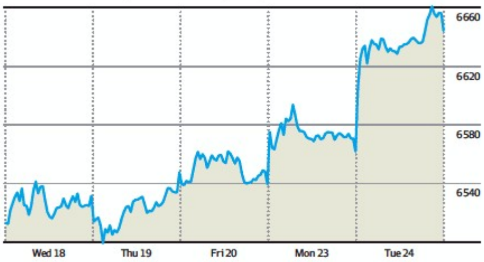
Flight Centre climbed 3 per cent to $16.59, Webjet advanced 4.7 per cent to $5.61, Qantas rose 3.9 per cent to $5.57 and Corporate Travel Management firmed 3.2 per cent to $20.26.

Brickworks closed higher after reporting government stimulus programs triggered a jump in demand that delivered strong first-quarter profits locally. The company's shares rose 4 per cent to $19.48.

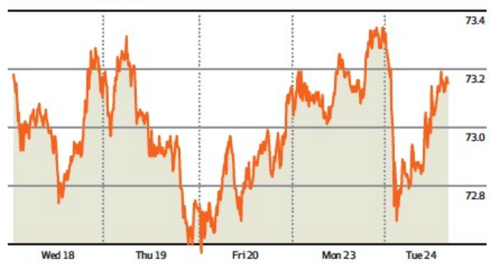
The losses were dominated by the gold sector, as further good news on COVID-19 vaccines and better-than-expected US economic reports weighed on safe haven demand. Newcrest Mining fell 6.1 per cent to $26.60, Northern Star Resources dropped 8.9 per cent to $12.72, Evolution Mining slid 8.4 per cent to $4.99 and Saracen Mineral Holdings declined 9 per cent to $4.74.

The smaller gold miners also came under heavy selling pressure. Silver Lake Resources dropped 9.4 per cent to $1.68, Gold Road Resources slid 7.5 per cent to $1.18, Perseus Mining dipped 7.6 per cent to $1.10, Westgold fell 5.5 per cent to $2.23, Ramelius Resources slipped 6.8 per cent to $1.65, St Barbara declined 4.3 per cent to $2.44 and Resolute Mining lost 3.3 per cent to close at 74¢.

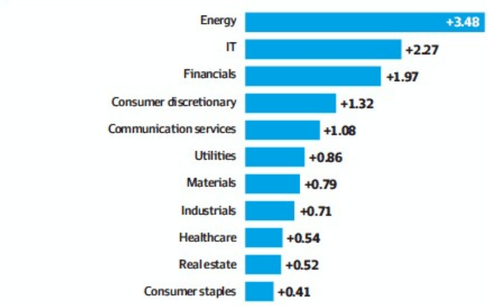
**STOCK MARKET** S&P/ASX 200 Index (points)



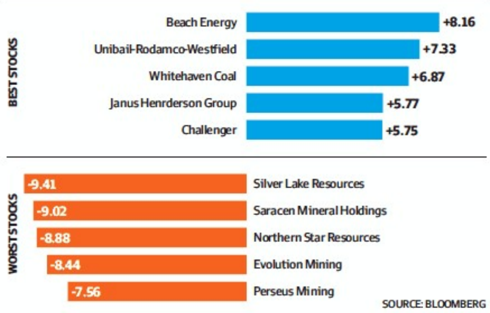

**CURRENCIES** $A/$US (US¢)




**MARKETS** Sector performance, Tuesday (%)




**COMPANIES** Stock performance, Tuesday (%)




SOURCE: BLOOMBERG

# Time for a rethink beyond the market inflection point

Analysis

ST Wong

The Australian sharemarket is at an inflection point where many big picture concerns have passed and the large gap between growth and value stocks looks set to collapse. But what is poised to do well through the next stage of the coronavirus recovery?

Three factors have further widened the already large gap between growth and value stocks.

First, strong secular trends such as digitisation accelerated.

Second, uncertainty created by the pandemic upended normality. Investors sought to sidestep these unknowns by focusing on what was certain – the obvious digital and COVID-19 winners, including purveyors of essential goods. Digital disrupters such as fintechs and food deliverers moved from being marginal players to validated businesses offering investors hyperbolic profitability.

Third, plentiful liquidity. Lower interest rates, including the Reserve Bank's move to quantitative easing, altered the primary investing decision for many investors. Themes such as "there is no alternative" and "fear of missing out" drove many investment decisions for both retail and institutional investors. This led to stratospheric valuation assumptions among many companies, and we continue to see such assumptions built into selected candidates in the present Australian IPO window.

As global economies recover next year, value stocks are starting to find favour – our present inflection point. However, the classic mean reversion argument for value investing does not guarantee traditional value stocks will be in ascendancy. Many value stocks operate in traditional industries, several of which face structural issues.

For example, e-commerce is an existential threat adversely impacting returns and growth prospects for bricks-and-mortar retailers, including Myer and David Jones, that are unable or slow to adapt to consumers' preference for omnichannel requirements.

Australian banks are facing new competition from disruptive specialist providers and fintechs that will persistently chip away at their distribution, funding and fee advantages.

Oil and thermal coal companies face long-term pressure from the transition to greener energy. This energy transition will attract spending yet depart from historical spend patterns, meaning we cannot assume mining services companies will enjoy the same cyclical recovery in demand as previously.

> *As economies recover next year, value stocks are starting to find favour.*

It's easy to make mistakes when basing investment decisions on anchored historical or "through the cycle" valuation multiples. Instead, investors should look beyond extrapolation of numbers and beyond the pandemic economic shock to companies well placed for rapid recovery, and to sectors that may benefit from improved pricing, margins and profitability.

Nine, publisher of *The Australian Financial Review*, is not only well placed for rapid recovery, it has pivoted significantly to digital revenue streams that suggest a strong future beyond the pandemic shock. Nine's digital businesses have rising audience numbers, which will lead to a greater share of recovering advertising spend. The company's streaming venture, Stan, is now a solid number two in the market and demonstrating evidence of rising returns.

Consolidating industries are a rich potential for companies to improve pricing, margins and returns. Alliance Aviation, a regional operator servicing Australia's mining industry, has proven itself to be a countercyclical capital allocator. The company raised and put capital to work when the aviation industry was bearing its maximum dislocation. Acquiring aircraft at cyclical low prices in a buyers' market will yield significant value accretion as these aircraft are deployed.

Bega Cheese (currently in trading halt) is reportedly in a strong position to acquire Lion Dairy and Drinks, which will improve Bega Cheese's scale, diversity and utilisation.

Another alternative to classic value investing is to seek companies previously marked down because of transient project delays. Bravura Solutions, the financial services software company, comes to mind. The company's deal pipeline has been hampered by deferred client decision-making.

However, the longer term trend for enhanced capabilities to consolidate and simplify mission critical software in the institutional funds management sector is undiminished.

Instead of bending to a particular style focus on investing in high-quality companies with durable growth opportunities, sustainable competitive advantage and appropriate valuations – this has proven effective during various market disruptions such as the Asian financial crisis, the tech wreck and the global financial crisis, and will remain key as we look towards a sustainable COVID-19 recovery.

*ST Wong is chief investment officer of Prime Value Asset Management.*

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