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Making Better Investors


# REPORTING SEASON REPORT CARD

## AUGUST 2020

By Henry Jennings & Chris Conway

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# YOUR ANALYSTS

## Henry Jennings

**Senior Analyst & Henry's Take**

- Author of Henry's Take
- Portfolio Manager – Small Cap Portfolio & Corona Six Packs
- Regular market commentator – ABC, Ausbiz, Livewire
- Specialises in small and mid-caps – although has a thorough knowledge and understanding of large caps as well
- Has been investing and working in the industry for 30 years

## Chris Conway

**Chief Operating Office & Senior Portfolio Analyst**

- Manages the Trading Ideas section of the newsletter and contributes to the Marcus Today Growth & Income Portfolios
- Regular market commentator – Sky News, Ausbiz, The Age and Herald Sun
- 2018 Stock Picker of the Year, as judged by the Australian Stockbrokers Foundation. 3rd in 2015, 2nd in 2016.
- Has been investing and working in the industry for 20 years

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# STOCK REPORT CARDS

## HENRY JENNINGS

- HUB24 Limited (HUB)
- Worley (WOR)
- Appen Limited (APX)
- Wisetech Global (WTC)
- Flight Centre (FLT)

## CHRIS CONWAY

- Super Retail (SUL)
- Crown Resorts (CWN)
- Magellan (MFG)
- SevenWest Media (SWM)
- Nanosonics (NAN)

# HUB24 LIMITED (HUB)

# COMMENTARY

- Growth opportunities ahead, although the recent results were slightly below expectations with an NPAT of $10.1m up 49% but 27% below consensus.

- The earnings miss was driven by costs rising not FUA falling short.

- Some margin pressure in the short term but a likely continued winner from financial service changes.

- Inflows annually implied of around $4.5bn to take it to $28bn-$32bn in FY22. Scope for outperformance of flows too.

- Strong FUA will translate into earnings growth.

- Has run hard but is emerging as one of the winners in the brave new world of financial platform providers and managers.

# REPORT

A

**Could do better**

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# WORLEY (WOR)


Daily WOR.AX
4/09/2018 - 12/10/2020 (SYD)
Price
AUD
18
16
14
12
10
8
6
4
O N D J F M A M J J A S O N D J F M A M J J A S O
Q4 18
Q1 19
Q2 19
Q3 19
Q4 19
Q1 20
Q2 20
Q3 20

# COMMENTARY

- Solid if unspectacular result. Underlying EBITA of $743m. Beating expectations.
- Cautious outlook. No change to FY21 underlying EBITDA of $751m.
- Cost-cutting delivering with savings target of $275m by Xmas 2021. $165m delivered so far.
- Q4 contracts were awarded of around $2bn.
- Forward PE of 16 is not expensive but does take into account some uncertainty.
- WOR is not as exposed to oil and gas as it has been recently following its recent acquisitions although it is highly leveraged to global growth and oil price strength.
- For investors looking for leveraged exposure to a higher oil price, this may fit the bill.

# REPORT

**B**

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# APPEN LIMITED (APX)

# COMMENTARY

- Disappointment on the recent numbers as not as CV proof as some had hoped.
- It had run hard and the numbers from its relevance revenue which was up 34% on pcp. However, and it's a big, however, serious disappointment in its Speech and Image business showing down 20% to $32m.
- Cash balance good at $126m and gross debt of only $34m.
- Higher costs due to CV disruptions have hurt
- APX has a history of upgrades and this year it failed that test. No upgrade insight.
- PE is still in the stratosphere at 44 on a forward basis falling to 34 in 2022.
- Guidance is maintained based on current circumstances with FY20 EBITDA margin in the 'high teens'.
- Speech and image is expected to bounce back as the shift to working from home abates, if and when, the virus effects diminish. The division was also impacted from a significant project being completed and the lumpy earnings last period.
- Some AI clients are doing it tough and renewals have fallen together with more discounts needed to be offered to attract new clients.
- Chinese market still in its infancy but showing some signs that APX is getting traction.
- After the recent falls, the company looks far more attractive and we believe the current weakness is an opportunity to accumulate.

# REPORT

**C**

**Could try harder**

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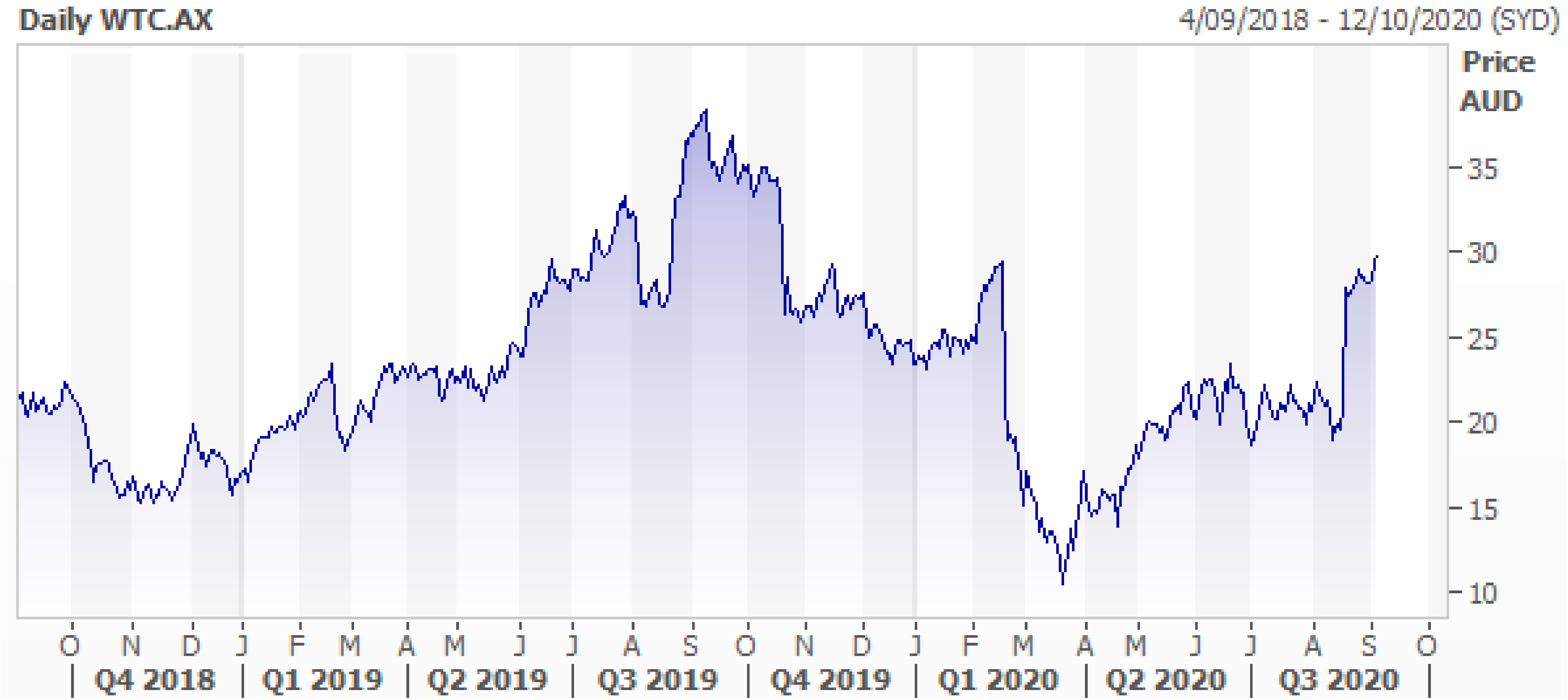
# WISETECH GLOBAL (WTC)



# COMMENTARY

- Proved the short sellers wrong with a solid finish to FY20. Gross profit increased by $13.8m, up 8%, to $183.2m
- Guidance showed a modest upgrade. FY21 guidance midpoint implies a ~34% EBITDA margin relative to a pre-result consensus of ~31%. Driven by $10m cost-out guidance for FY21 with another run rate $20m-30m expected in FY22.
- Customer retention of its core product CargoWise is very good.
- Strong balance sheet with net cash of $223m. Plenty of headroom too in credit facilities.
- The good news was the company seems to be on pause for its aggressive acquisition strategy. Acquisitions are forecast by management to have flat growth in FY21 guidance.
- Some bad news in delays to new products due to CV19.
- Its core product CargoWise saw 1000 enhancements in FY20 and there is a new CargoWise Neo product on its way.
- Some of the extreme rally was shorts covering, so some consolidation may be in order, but this result has silenced the critics and the bears. They will be back, but the company is ready now.
- Given global exports are getting back to normal and in a CV19 world, things are far more complex, a logistics provider would seem a good place to be.
- More upside to come, but it gets slightly harder form here.

# REPORT

**B**

**Most improved**

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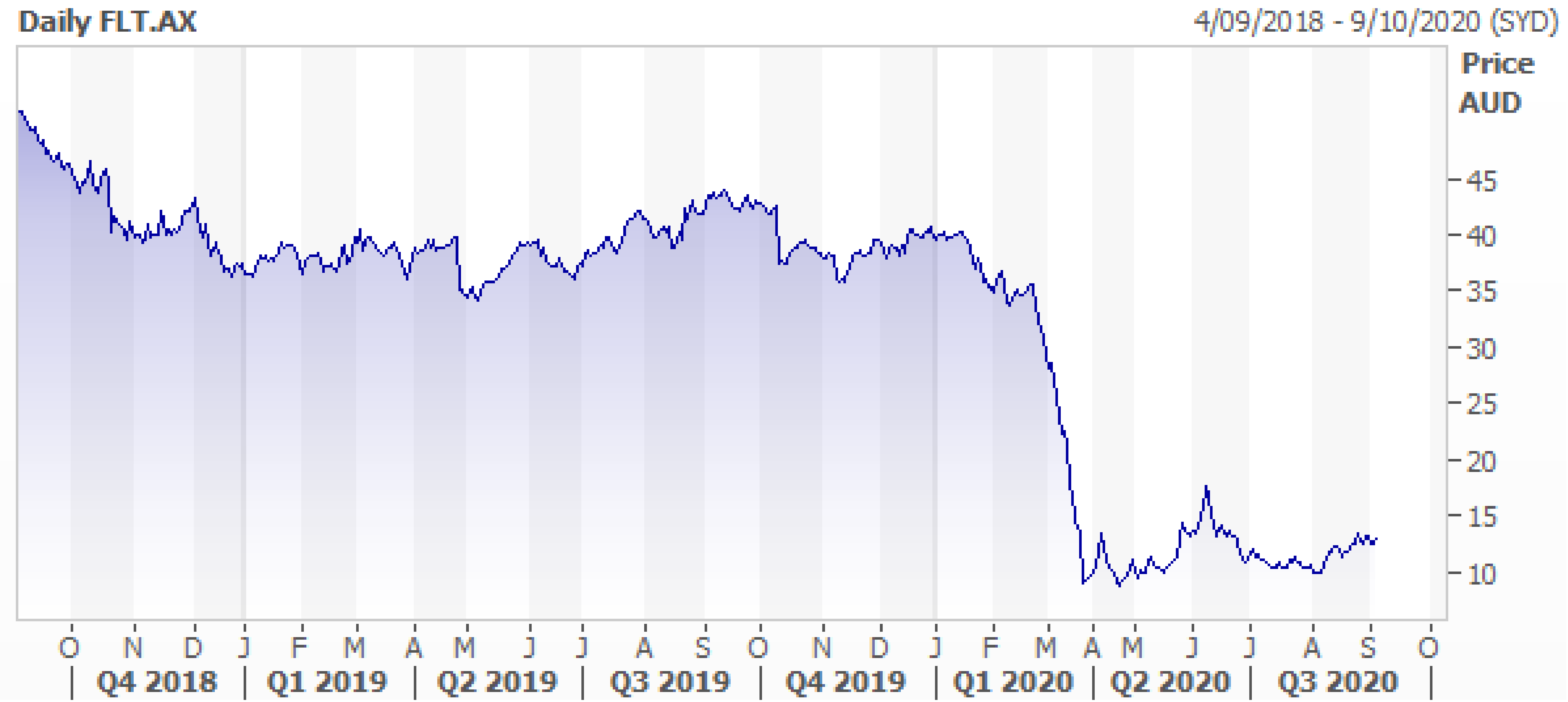
# FLIGHT CENTRE (FLT)



# COMMENTARY

- Looking at the local bricks and clicks store, it still has only one out of four consultants in the shop front. Many others are working from home.
- The big question for FLT is one of how long it needs to hibernate its business for? How quickly will we start to travel again? More than a road trip at least.
- Monthly operating cash flow drag reduced to $43m in June.
- FY20 statutory loss of $825m-$875m significantly larger-than-expected.
- It is possible that air travel is never the same again. Analysts have forecasted TTV in 1H21 will be down -66% on pcp, factoring in closed stores and current uncertainty around bookings.
- Investors will need to look past the virus and focus on the reopening trade.
- The company is running somewhat on government stimulus, whether that is here in Australia or in the UK.
- The share price will be driven by sentiment rather than fundamentals. It is going to be a long road back for travel stocks. Only the strong will survive, and FLT is certainly in a strong position, but it is going to be a volatile run.
- Highly dependent on a return to normality and vaccine hopes.
- Will continue to bump along the bottom until conditions stabilise and people return to mass flights and travel.  Until then its survival mode. Hibernation.

# REPORT

**C**

**Needs to concentrate more**

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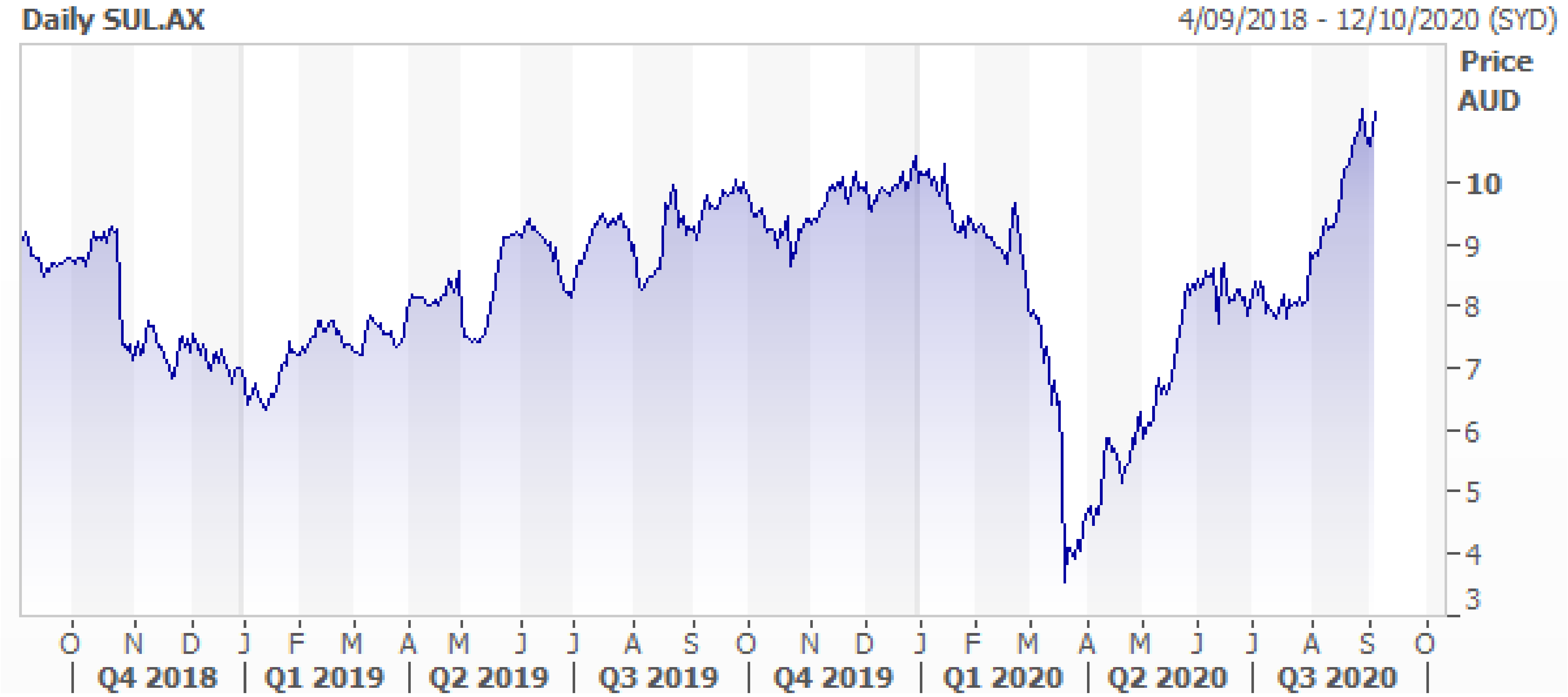
# SUPER RETAIL (SUL)



# COMMENTARY

- Results were good…Auto and Rebel margins expanded nicely in the second half
- Tapped into multiple themes with direct leverage to strong COVID trends
- Automotive (Super Cheap) which has been hot – people spending money on servicing and improving their vehicles
- Camping/outdoors with BCF and Macpac - regional as opposed international travel
- Sport – REBEL – everyone trying to be their best selves during lockdown
- Brokers almost universally like it – not swimming against the tide with most price targets 10-15% above the current price.

# REPORT

A

**Well organised and very popular**

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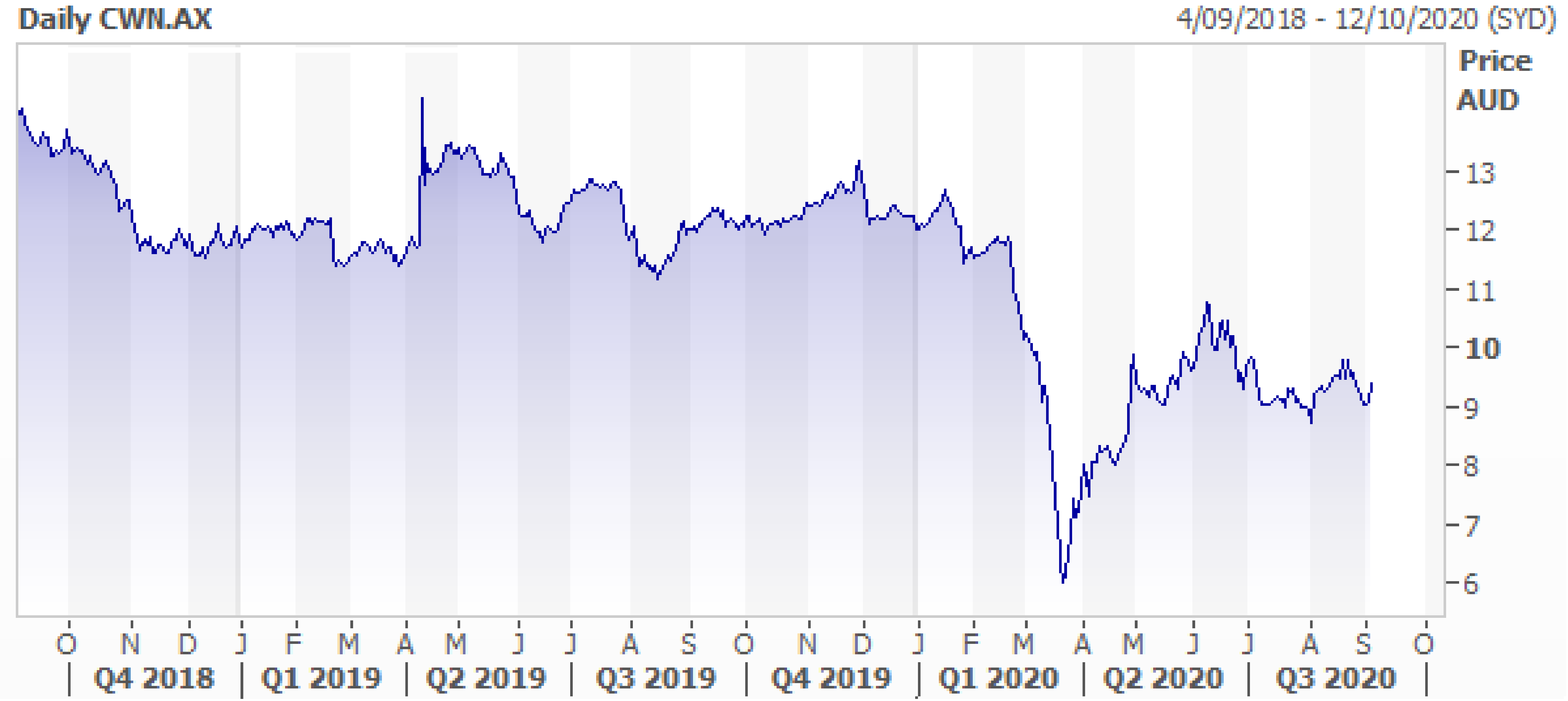
# CROWN RESORTS (CWN)



# COMMENTARY

- Results were reported FY theoretical NPAT (before closure costs and ex-items) of $161m versus expectations of $154m, on revenue of $2.21bn vs expectations of $2.24bn.

- The result was heavily impacted by COVID and closure costs but in line with the prior guidance … which is about all anyone could have asked for.

- The upside potential is in the ending of lockdowns in Victoria and the reopening of international borders – admittedly perhaps some time away.

- For the period 1 July to 16 Aug 20, Crown Perth's main floor gaming revenue (excluding VIP program play revenue) was up circa 18% on the prior corresponding period, providing a glimpse of how the lifting of border restrictions and an economic recovery might positively impact the business.

- CWN has well-positioned casino properties to capture a recovery and, when the recovery comes, it will likely be swift – first domestically and then internationally as borders reopen.

# REPORT

**B**

**Been in the naughty corner but brighter future ahead**

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# MAGELLAN FINANCIAL (MFG)

# COMMENTARY

- FY20 results were broadly in line with expectations, which can be considered a huge win given the tough operating environment. Let's not forget that markets fell 40% at one stage over the past 12 months.
- Management fees were up 25% on the previous corresponding period, while underlying profit (NPAT) was up over 20% and the dividend increased by over 16%.
- Average funds under management (FUM) rose 26%, whilst MFG's growth initiatives – i.e. leveraging its growing retail client base and balance sheet strength – could deliver significant medium-term growth FUM.
- Bottom line… Hamish knows how to attract money and make money. A powerful combination.

# REPORT

**A**

**Teacher's pet**

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# SEVEN WEST MEDIA (SWM)

# COMMENTARY

- Some might tell you that it's a bargain. We would say it's the weakest player in a tough and continually disrupted market.
- FY20 earnings (EBIT) fell by -54% in a difficult TV advertising environment – and one that will likely be difficult well into the future unless everyone stops watching Netflix and goes back to free-to-air TV.
- Whilst COVID has exacerbated ad market headwinds, the company has had to sell a number of assets to reduce its debt burden.
- There is just no good reason to own this stock at the moment unless 'hope' is part of your investment strategy. NEC is a much stronger player in the space, with multiple and modern revenue streams.

# REPORT

E

**Straight to the principal's office**

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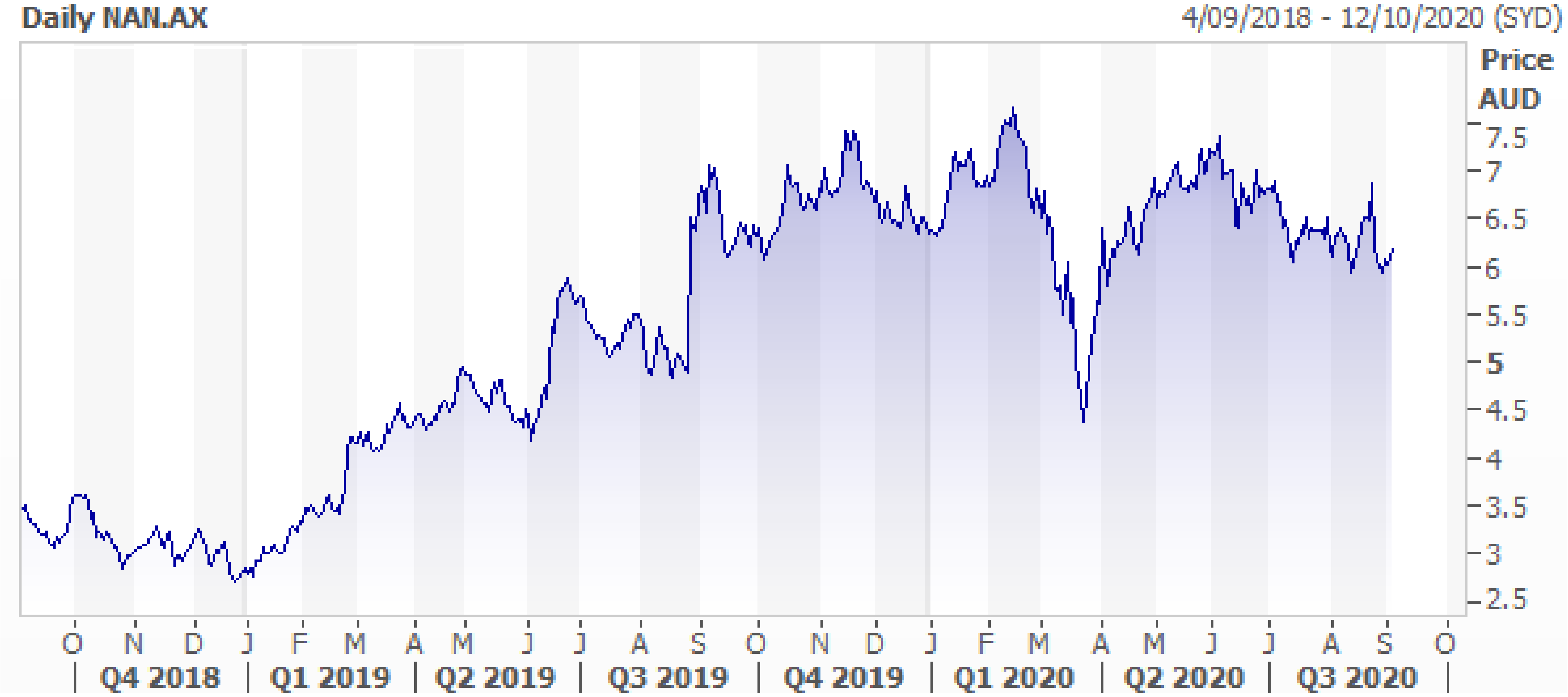
# NANOSONICS (NAN)



# COMMENTARY

- Could go either way.
- Chris has followed this one closely, having been a favourite stock of his for some time.
- He covered it in the Reporting Season Guide with a bearish outlook, correctly calling that it would be a tough report.
- NAN disappointed with its numbers given limited access to hospitals due COVID and advised that its new product launch would be delayed until FY22.
- All that said, they are now known knowns (to steal a line from Rumsfeld) and any improvement – better access to hospitals as COVID abates or an earlier than expected launch – could provide a shot in the arm for the share price.
- Despite the ongoing uncertainties associated with COVID, the fundamentals for the underlying business remain strong. With the share price still down more than 10% since reporting, NAN could be worth taking on.

# REPORT

**C**

**Rough semester but A grade potential still**

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## August 2020
## Reporting Season - Report Card

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