WILSONS

A Shopping List for Reopening

Our weekly view on Australian equities.

14 October 2021

Reopening Opportunities

We highlight several reopening opportunities across the S&P/ASX 300 – a shopping list for investors looking for exposure to the reopening theme.

Investors in recent weeks have become more circumspect of just how meaningful reopening could be, with a number of reopening beneficiaries underperforming the market.

We believe investors should not lose faith in the reopening. In our 4Q21 outlook, we outlined the case for reopening to play out over a number of quarters. The staggered approach to national reopening, along with further easing of restrictions offshore makes this an almost certainty.

Read Increasing Cross-Currents. How are we Positioned?

The prospect of improved earnings momentum remains and should be on show across much of corporate Australia in time for the February 2022 results season.

Read our Q4 asset allocation outlook - Cycle Maturing but still Plenty of Life.

Our shopping list for reopening identifies opportunities across five themes, all of which are exposed to the reopening thematic. See Exhibit 1.

Exhibit 1: Our shopping list for reopening

Accent Group	AX1
Adairs	ADH
Breville Group	BRG
GUD Holdings	GUD
Integral Diagnostics	IDX
Kathmandu	KMD
Monadelphous Group	MND
NextDC	NXT
PEXA	PXA
Qantas Airways	QAN
Ramsay Health Care	RHC
REA Group	REA
Sealink Travel Group	SLK
Seven Group Holdings	SVW
Silk Laser	SLK
Skycity Entertainment Group	SKC
United Malt Group	UMG

Source: Wilsons

Five Themes of Reopening

We have screened for potential reopening beneficiaries across five themes. All have been negatively impacted by COVID restrictions and stand to benefit as activity resumes.

- Retail
- Health and wellness
- Housing
- Labour and supply shortages
- Travel reopening

Our screen looks across S&P/ASX 300, scanning for stocks with poor share price performance relative to earnings revisions. We have also screened for stocks with forward earnings downgrades over the past three months that should have room for upgrades as the economy reopens.

A key debate remains just how quickly activity and therefore earnings reaccelerate. In our view, it is increasingly likely to be more nuanced and varied between companies than what we have seen in prior restarts.

A number of challenges present for restarting business in terms of staffing levels, higher input costs, and in some cases, simply getting product given global supply chain issues – issues which are likely to cause some bumps along the way.

Retail Spending Splurge

Most consumer discretionary retail names have been negatively impacted due to lockdowns. While online has helped mitigate the disruption, for most retailers it only provides a partial offset.

As a consequence, forward earnings estimates for most retailers have seen downgrades over the past three months. Our sense is some of these lost earnings can be caught up as we move into 2022.

The bigger picture debate is whether the retailers which have benefited from COVID over the past 18 months face an earnings cliff, as domestic spend is potentially diverted offshore or into services-based consumption.

Adairs (ADH) is a good example of the debate on earnings profile. The most recent round of lockdowns negatively impacted sales, but sales are still tracking +50% above FY19 levels. Does that mean we might see another acceleration in sales before they return to a post 'COVID normal' level, just fractionally above FY19 levels?

The ADH share price, which is up +50% since late 2019, is implying that ADH is unlikely to face an earnings cliff. Market earnings estimates currently imply earnings-per-share (EPS) growth to be almost three times higher post-COVID than in the three years leading into COVID (the acquisition of online retailer Mocka helping).

Exhibit 2: Selected consumer discretionary companies ranked by 3-month price performance

Focus List Stock | Wilsons Research Coverage

Company Name	Ticker	Market Cap (A$bn)	EPS Revision % FY1 (3mth)	EPS Revision % FY2 (90d)	Price Change % (90d)	12mth FWD PE	Historical EPS CAGR % (FY16-19)	Forecast EPS CAGR % (FY1-FY3)	Consensus Recommendation Mean (5 = Strong Sell, 1 = Strong Buy)
Accent Group	AX1	1.4	-25%	-2%	-6%	19.1	11%	27%	2.2
BWX	BWX	0.8	-2%	1%	-6%	24.5	-11%	28%	2.0
NEXTDC	NXT	5.3	-50%	-32%	-2%	>100	NA	158%	1.8
Adairs	ADH	0.6	-3%	3%	-1%	10.4	4%	12%	1.8
Tyro Payments	TYR	1.9	-36%	13%	5%	>100	NA	NA	2.3
Vicinity Centres	VCX	7.6	-16%	-3%	7%	14.7	-2%	11%	2.8
Kathmandu	KMD	1.0	-17%	-2%	8%	13.8	15%	21%	2.2
Universal Stores	UNI	0.6	-16%	8%	15%	19.7	NA	30%	2.0

Preferred Exposures	
ADH	Lockdowns impacted ~30% of store days. Sales currently running at ~50% above 2019 levels. Market forecasting EPS growth to be 3X higher than pre-COVID - helped by Mocka. Share price does not appear to reflect the higher growth rate.
AX1	Large negative earnings revision (lockdown related) and concerns around supply issues from Asia weighing on AX1. Reopening could surprise to the upside with an increase in clothes and sneaker sales.
KMD	Lockdowns impacted ~30% of store days. Reopening international borders should support sales of winter gear as we take trips to the Northern Hemisphere. Possible underappreciation of Rip Curl sales.
NXT	Share price down ~30% through September - EPS downgrades (further reinvestment) and impact of higher bond yields. Growth profile remains very strong.

Source: Refinitiv, Wilsons.

Getting Healthy

Consumers have been unable to access health services for an extended period. Health services are expected to be in high demand running into summer. Additionally, these companies only need an easing of local lockdowns to reopen.

Anecdotal evidence from NSW/VIC suggests forward orders across elective surgery to wellness services across October/November are very strong. Earnings are likely to recover quickly for this group of stocks as more restrictions are eased.

Looking further ahead, it is interesting that except for Ansell (ANN), healthcare companies are expected to see earnings growth higher in the years post-COVID vs pre-COVID. Ramsay's (RHS) EPS growth rate is forecast to be almost double leading into 2024 vs the three years pre-COVID.

We put this down to two factors; 1) low base, coupled with catch-up demand for services; and 2) structural cost base improvements. The market, in all likelihood, will be prepared to put these recovery earnings on a higher multiple.

Exhibit 3: Selected health and wellness companies ranked by 3-month price performance

Focus List Stock | Wilsons Research Coverage

Company Name	Ticker	Market Cap (A$bn)	EPS Revision % FY1 (3mth)	EPS Revision % FY2 (90d)	Price Change % (90d)	12mth FWD PE	Historical EPS CAGR % (FY16-19)	Forecast EPS CAGR % (FY1-FY3)	Consensus Recommendation Mean (5 = Strong Sell, 1 = Strong Buy)
Ansell	ANN	4.1	1%	4%	-21%	13.7	3%	1%	2.0
Cochlear	COH	14.0	-8%	-6%	-12%	47.8	13%	15%	3.1
Integral Diagnostics	IDX	1.0	-15%	-4%	-6%	25.9	10%	16%	2.1
Ramsay Health Care	RHC	15.2	-16%	-3%	5%	27.6	7%	17%	2.3
Silk Laser	SLA	0.2	-20%	-3%	6%	25.8	NA	31%	1.5

Preferred Exposures	
IDX	Lockdown related earnings downgrade have weighed IDX share price post FY21 results. Activity levels expected to resume quickly on reopening. Small tuck-acqusition helps support the growth step up post-COVID.
RHC	Return of elective surgery vols + singnificant backlog of procedures implies strong 2H22. Acquisition benefits + low base effects result in higher post-COVID growth rate.
SLA	While underweight NSW/VIC (20% of stores vs 60% of population), SLA still expected to benefit from reopening + recently acquired NZ portfolio.

Source: Refinitiv, Wilsons.

Housing

Housing turnover levels have been under pressure given mobility restrictions in the key markets of NSW/VIC. These should lift meaningfully over 4Q21 and into 2022 – directly benefiting turnover based businesses like Domain (DHG), PEXA (PXA) and REA Group (REA). It is not surprising that DHG and REA have seen more aggressive negative earnings revisions over the past three months.

PXA's share price has been impacted more so by rising yields, given the high growth potential of the business and UK exposure. We think the pullback in the PXA share price looks particularly interesting at these levels.

Another consideration for housing exposed names is that there are likely to be very few external influences that impede the recovery. Supply chain issues, labour rehiring and shipping delays are not likely to be significant issues for this group of stocks.

REA's earnings growth over the coming years is also expected to be higher than the three years before COVID. This is more a function of higher international earnings contributions and the push on margins through the expansion of REA's value-based or 'depth pricing' strategy.

Exhibit 4: Selected housing companies ranked by 3-month price performance

Focus List Stock   Wilsons Research Coverage

Company Name	Ticker	Market Cap (A$bn)	EPS Revision % FY1 (3mth)	EPS Revision % FY2 (90d)	Price Change % (90d)	12mth FWD PE	Historical EPS CAGR % (FY16-19)	Forecast EPS CAGR % (FY1-FY3)	Consensus Recommendation Mean (5 = Strong Sell, 1 = Strong Buy)
PEXA	PXA	2.7	-2%		-13%	45.1	NA	NA	2.0
REA Group	REA	20.2	-6%	-6%	-7%	49.9	11%	20%	2.4
Mirvac Group	MGR	11.1	-3%	3%	-4%	18.3	10%	7%	2.5
Stockland	SGP	10.6	-2%	-2%	-4%	12.8	10%	5%	2.5

Preferred Exposures	
PXA	Reduced housing turnover (lockdowns) and higher bond yields have weighed on PXA. Volumes should return over coming months.
REA	Share price knocked around by lower listing volumes in NSW/VIC, resulting in small EPS downgrades. Strong EPS growth profile over next 3 years as both cyclical and structural drivers continue to play out.

Source: Refinitiv, Wilsons.

Skills and Labour Shortages

Supply issues have been a major theme over the last quarter, ranging from a lack of labour to issues with semiconductors and generally long lead times. To varying degrees, companies have been impacted by these issues.

Breville (BRG) is likely to post slower growth off the back of the supply chain and shipping delays. GUD (GUD) has seen lower demand given lockdowns, with higher costs having to be offset by out of cycle price increases. In GUD's case, the share price reflects closer to cycle low earnings multiples.

The reopening of state borders, particularly into WA, will come as a relief to Monadelphous Group (MND) which is suffering from a shortage of skilled workers resulting in lower margins. Seven Group (SVW) should also benefit, particularly with Coates Hire business.

Exhibit 5: Selected companies impact by labour shortage issues, ranked by 3-month price performance

Focus List Stock / Wilsons Research Coverage

Company Name	Ticker	Market Cap (A$bn)	EPS Revision % FY1 (3mth)	EPS Revision % FY2 (90d)	Price Change % (90d)	12mth FWD PE	Historical EPS CAGR % (FY16-19)	Forecast EPS CAGR % (FY1-FY3)	Consensus Recommendation Mean (5 = Strong Sell, 1 = Strong Buy)
Monadelphous Group	MND	0.9	-26%	-7%	-13%	16.7	-9%	17%	2.5
Breville Group	BRG	3.8	-2%	-2%	-9%	33.2	10%	9%	2.7
Bapcor	BAP	2.5	-2%	-1%	-8%	19.3	23%	10%	1.8
United Malt Group	UMG	1.2	-17%	-10%	-7%	18.5	NA	18%	2.1
GUD Holdings	GUD	1.0	-10%	-10%	-7%	14.9	11%	7%	2.2
Reliance Worldwide	RWC	3.9	10%	7%	-6%	18.8	26%	6%	2.8
Baby Bunting Group	BBN	0.7	-6%	-2%	-3%	22.9	10%	18%	1.6
Eagers Automotive	APE	3.8	21%	20%	-2%	15.5	-15%	-7%	2.1
Seven Group Holdings	SVW	7.9	23%	10%	-1%	11.1	36%	6%	2.1
NRW Holdings	NWH	0.8	2%	6%	1%	7.8	NA	7%	1.5

Preferred Exposures	
GUD	Earnings squeeze. Lower revenue growth (lockdowns), and higher costs. Valuation multiples close to cycle lows, implying no rebound post fade of temporary factors.
MND	WA closed borders = higher labour costs, lower productivity. 2H22 can potentially show material improvement in earnings momentum. WIH remains strong. EV/ EBITDA 7x is close to cycle lows.
UMG	Outlook for both vols and pricing in key malt business encouraging, C19 reopening and restocking. Higher costs have dented growth in FY22E, but should elevate seeing a return to growth in FY23E.
BRG	Impact of higher COGS, supply chain will dampen growth. New geographies/products likely to outweigh shorter-term impacts. BRG does have pricing power. EPS growth inline with pre-COVID levels could well prove conservative.
SVW	Potential supply issues with Westrac in WA weighing on stock. Coates has been disrupted by COVID lockdowns on the East Coast.

Source: Refinitiv, Wilsons.

Travel Reopening

The travel sector is a consensus reopening beneficiary given the almost complete loss of business, particularly on international travel-related services. All names have seen negative consensus earnings revisions over the past three months. The imminent restart of both domestic and international travel this quarter should begin to improve the earnings prospects to most of these names.

We note that ex the casino operators and Sealink Travel Group (SLK), all other names have seen their share prices outperform the market over the past three months. Investors have already partially built-in reopening expectations.

SLK looks particularly interesting, following a ~30% price decline over the past three months. Extended domestic lockdowns resulting in negative earnings revisions could ease as reopening gets underway. The more discretionary-based travel services should be in a strong position to benefit from travel reopening over the summer period. Marine business, 30% of SLK group earnings is most exposed to reopening. It is also worth noting earnings growth prospects are materially higher post-COVID vs pre, given recent acquisitions and pool of synergies.

QANTAS (QAN) stands to benefit from both domestic and international reopening. The combination of pent-up demand and structurally lower cost base has the potential to lift earnings rapidly into FY22/23.

Exhibit 6: Selected travel reopening exposed companies ranked by 3-month price performance

Focus List Stock   Wilsons Research Coverage

Company Name	Ticker	Market Cap (A$bn)	EPS Revision % FY1 (3mth)	EPS Revision % FY2 (90d)	Price Change % (90d)	12mth FWD PE	Historical EPS CAGR % (FY16-19)	Forecast EPS CAGR % (FY1-FY3)	Consensus Recommendation Mean (5 = Strong Sell, 1 = Strong Buy)
Crown Resorts	CWN	6.0	-105%	-18%	-19%	68.1	-1%	>100%	3.0
Sealink Travel Group	SLK	1.6	-15%	-5%	-18%	20.8	-2%	20%	1.9
Star Entertainment Group	SGR	3.1	-82%	-12%	-12%	36.4	-7%	172%	1.9
Skycity Entertainment Group	SKC	2.2	-23%	1%	-7%	21.0	0%	36%	2.3
Auckland International Airport	AIA	10.8	-83%	-19%	6%	167.1	8%	307%	3.0
Corporate Travel Management	CTD	3.1	-16%	2%	8%	39.0	22%	63%	2.4
Qantas Airways	QAN	10.3	-236%	-3%	16%	>100	3%	>100%	1.8
Webjet	WEB	2.3	-67%	-6%	23%	63.2	NA	>100%	2.7

Preferred Exposures	
SLK	Domestic tourism beneficiary. Majority of earnings base is non-discretionary urban transport services.
QAN	Pent-up demand should provide decent path for earnings recovery over FY22/23. Cost base sustainably lower - likely to result in higher level of Group profitability.
SKC	Strong earnings recovery for a mature business expected. Stock price weighed down by NZ lockdowns and sizeable negative earnings revisions. Both should reverse as we move into 2022.

Source: Refinitiv, Wilsons.

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Recommendation structure and other definitions

Definitions at www.wilsonsadvisory.com.au/disclosures.

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